

*By the same Author*

BRITAIN'S ECONOMIC PROBLEM

THE FUTURE  
*of*  
SOCIALISM

by  
C. A. R. CROSLAND



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LONDON

## THE TRANSFORMATION OF CAPITALISM

### v *The Effects of Nationalisation on the Distribution of Power*

A second transfer of economic power has followed from the nationalisation of the basic industries. This has clearly diminished the power of the capitalist class. But more than this one cannot easily assert, for while everyone agrees on who has lost the power, not everyone agrees on who has gained it. The political authority now has, it is true, the power of Ministerial directive, of Parliamentary debate, and of investigation by Select Committee. On the other hand, many of the nationalised Boards consistently act in a very independent manner, which provokes constant complaints alike from workers, politicians, and economists. Indeed, some people think that the Boards are actually less 'accountable', and amenable to governmental control, than many private managements.

For practical purposes, therefore, economic decisions in the basic sector have passed out of the hands of the capitalist class into the hands of a new and largely autonomous class of public industrial managers. But since the political authority has at the same time acquired an explicit legal power over these new managers, even though it often chooses not to use it, the change does represent, in the last resort, an increase in the economic power of the state – though of course this leaves open the question of whether nationalisation is always the only, or the best, method of achieving this result.<sup>1</sup>

### vi *The Transfer of Power from Management to Labour*

Thirdly, there has been a decisive movement of power within industry itself from management to labour. This is mainly a consequence of the seller's market for labour created by full employment.

The relative strength of workers and employers does not, of course, depend solely on conditions in the labour market. It depends also on the political balance, the social climate, the degree of organisation of the two sides, and current views about

<sup>1</sup> v. Chapter XXII, Section II, for a full discussion of this point.

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## PREFACE

PERHAPS I should first apologise for the length of this book, at a time when many on the Left are asking for a terse, simple restatement of socialist aims.

It is long because I became increasingly dissatisfied with the brief essays which have been almost the sole response so far to the reiterated demands for 'new thinking' about socialism. It has become a truism to say that the Labour Party has entered on a new historical phase, now that so much of its pre-war programme is an accomplished fact. But the problems of adjustment to this new phase are, I believe, too subtle to be resolved in easy or summary fashion.

Any work which sets out to answer the question, 'what is socialism now about?', must do two things: it must analyse the detailed changes since 1939, and reinterpret socialism in the light of them; and it must outline the practical policies to which this reinterpretation seems to point. Brief essays must inevitably omit one or other of these aspects. Thus we have either the detailed discussion of one particular topic, but unrelated to any wider framework of socialist thinking; or the short, general essay on 'the meaning of socialism', of which each abbreviated section inevitably concludes by saying that 'no doubt the practical policy will be hard to apply; but if we are resolute, the difficulties should not prove insurmountable'. Much credit is due to the authors of both types of essay; but neither can be wholly satisfactory.

Yet anyone rash enough to attempt both tasks, and to cover the entire field of domestic socialist policy, at once comes up against the difficulty that he cannot possibly have the necessary expert knowledge. Apart from having been in Parliament for five years, my only limited claim to expertise is as an economist. But a book on socialism to-day must also embrace political theory, sociology, industrial psychology, history, and even semantics; it must discuss not only fiscal problems, but education, the social

## PREFACE

services, industrial relations, the nature of class, and many other topics on which I possess only a layman's fragmentary knowledge.

There is no way of avoiding this difficulty, which is inherent in the subject-matter itself. There would be little interest in a book on socialism written narrowly from one single specialist angle. If, therefore, one is not to abandon the project in despair, one must simply take the plunge and attempt a view of the whole subject: and expose oneself, offering them an apology in advance, to the correction and reproof of the various experts.

Sociology presents an especially acute problem. I am convinced that this is the field, rather than the traditional fields of politics and economics, in which the significant issues for socialism and welfare will increasingly be found to lie. I have therefore drawn fairly heavily on recent sociological writing. But I am not a professional sociologist; and moreover these newer social sciences are still very much in their infancy. The experts disagree; the field research, especially in Britain, is often lacking; and dogmatic statements are seldom warranted. There must inevitably, therefore, be a tentative quality about both judgments and prescriptions in this field. Indeed this is one aspect of a wider problem facing socialists to-day, that the less glaring and conspicuous the evil, the less simple and manifest the remedy.

This book is about socialism in Britain (though it draws freely on the experience of some other countries, notably Sweden and the United States). It is not about foreign or colonial policy, or the problem of the under-developed areas. It goes without saying (or, rather, it usually goes with saying, but without doing) that socialism now has more application to Britain's relations with other, poorer countries, than to internal class relations within Britain. Viewed on a world scale, the British worker belongs to a privileged upper class; and he should concede, as well as demand, greater equality.

On this issue, a considerable literature already exists. But whatever our relations with the outside world, the Labour Party must have a domestic programme, and a view of the sort of society which it seeks to create at home. This alone is the theme of this book; although this theme is now of less ethical significance



than the question of our relations with less advanced societies.

I must also account for a major omission. Since I started writing this book, I have become Secretary to the Independent Commission of Enquiry into the Co-operative Movement. This Movement, on account of its size, its democratic principles, and its non-profit-making character, must clearly have a large part to play in furthering socialist ideals in Britain. But I have reluctantly decided that I must delete all references to Co-operative problems and policies, lest I should seem to pre-judge the findings of the Commission.

The lay-out of the book is briefly as follows. Part One describes the new starting-point; that is, it analyses the significance of the changes that have occurred since the pre-war socialist programmes were constructed. Part Two asks what meaning is to be attached to the concept of socialism in the light of these changes, and proceeds to define it in terms not of nationalisation or state planning, but of social welfare and social equality. Part Three discusses the welfare objective. Part Four, of which the first four chapters constitute the essential case for socialism to-day, deals with three allied questions: how social equality is now to be interpreted, how greater equality is to be justified when further redistribution will not obviously increase economic welfare, and how it is to be attained. Part Five analyses the economic implications of socialist policy in other fields, and the necessary conditions for maintaining a rapid rate of growth. (It does not deal in detail with the balance of payments problem, which I have written on at length elsewhere.)<sup>1</sup> The concluding chapter both summarises the main recommendations, and also peers rather further into a future in which collective social and economic issues become less significant than the problems of leisure and private life.

The entire book has been read in manuscript by Mr. Hugh Dalton, Mr. P. D. Henderson, Mr. I. M. D. Little, and Mr. P. M. Williams; and individual chapters by Mr. J. H. Smith, Mr. Michael Young, and my old tutor Sir Robert Hall. These diligent and attentive critics have helped me greatly to improve the book; and I must thank them for their hard work and good nature. But they hold very varying political opinions, and I must absolve them, even more explicitly than is normal in such cases,

<sup>1</sup> *Britain's Economic Problem* (Cape, 1953).

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from any responsibility for the rather controversial views which I express.

I also owe an exceptional debt to my late secretary, Mrs. Horsley, and to Miss Laura Kilcawley, who between them have typed, re-typed and checked more words than I care to imagine. Their tolerance and complete reliability have been invaluable. Finally, I must thank Miss Beatrice Bacon and Mr. Borrie for their kind help in the thankless task of reading the proofs and compiling the index.

C. A. R. CROSLAND

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# THE FUTURE OF SOCIALISM



PART ONE

THE TRANSFORMATION OF  
CAPITALISM



# I

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## THE TRANSFER OF ECONOMIC POWER

### I *The Pre-war Socialist Assumptions*

SOCIALISTS in the 1930s, whatever their disagreements on long-term questions, were united on the immediate objectives of a majority Labour Government. These were first the abolition of poverty and the creation of a social service state; secondly, a greater equalisation of wealth; and thirdly, economic planning for full employment and stability.

But many socialists, while assenting to these aims in principle, did so in a distinctly pessimistic frame of mind, thinking them probably unattainable within the existing economic framework. They believed, on the basis of a predominantly Marxist analysis, that capitalism itself must first be forcibly overthrown. Otherwise, reform would be rendered impossible either by the fact that the whole system was in process of decline, or, even while it still survived, by the entrenched power and reactionary attitudes of the 'capitalist ruling-class'.

The pervasive influence of this Marxist analysis in the 1930s was a reflection of an intellectual ferment without parallel in the history of the British Labour Movement, so traditionally and so doggedly anti-doctrinal. Under the impact of the 1931 slump and the growth of Fascism, more and more people came to mistrust a merely *ad hoc* reformist approach, and to feel that some more thorough-going analysis was needed to explain the catastrophe which appeared to be engulfing world capitalism.

The official Labour Movement remained somewhat unmoved by all this excitement, though faint echoes of it could be heard

even from the direction of the National Executive.<sup>1</sup> But the younger generation of intellectuals absorbed itself furiously in the pursuit of theoretical truth. And for the most part it took to Marxism, which thus had to wait almost a century before achieving a major influence on the British Left.<sup>2</sup> The Fabian tradition offered no effective counter-attraction – indeed, its best-known leaders deserted, and became amongst the foremost exponents of the Marxist gospel.<sup>3</sup> The Hobsonian tradition, still strong in the I.L.P., was sufficiently close to Marxism not to constitute a rival doctrine – after all, had not Hobson been canonised by Lenin himself? A very few socialist thinkers stood outside the Marxist stream,<sup>4</sup> and a number of non-analytical works of a practical reformist nature were still being written.<sup>5</sup> But Marxism was the dominant intellectual influence; and it made a profound impact on my generation of socialists in their formative years before the war.

For this reason, and also because many who might have disclaimed the label Marxist shared the pessimistic attitude described above, I start by discussing the theory of capitalist collapse, and the metamorphosis of the ‘capitalist ruling-class’; and so hope to arrive at a clearer view of the locus of economic power in the present ‘mixed economy’. The next chapter discusses the performance of the Labour Government in respect of the three immediate objectives mentioned at the beginning of this chapter.

But first one preliminary word must be said. It will become clear in this and later chapters that in my view Marx has little or nothing to offer the contemporary socialist, either in respect of practical policy, or of the correct analysis of our society, or

<sup>1</sup> Cf. Mr. Attlee’s *The Labour Party in Perspective* (Gollancz, 1937).

<sup>2</sup> The characteristic figure of the decade was Mr. Strachey, whose two books, *The Nature of Capitalist Crisis* and *The Coming Struggle for Power*, were as influential as they were typical of the period. In the political field Professor Laski was the outstanding influence (cf. *The State in Theory and Practice*).

<sup>3</sup> The most notable conversion, of course, was that of the Webbs themselves, who began by eschewing Marxism altogether and ended by embracing it whole. The outstanding younger Fabian figure, G. D. H. Cole, was also a leading (though never uncritical) exponent of Marxism (cf. especially *What Marx Really Meant*, Gollancz, 1934).

<sup>4</sup> Notably E. F. M. Durbin, *The Politics of Democratic Socialism* (Routledge, 1940).

<sup>5</sup> E.g. Mr. Dalton’s *Practical Socialism for Britain* (Routledge, 1935), and Mr. Douglas Jay’s *The Socialist Case* (Faber, 1937). These and similar books dealt essentially with short-term problems, and contained no long-run analysis of the future of capitalism.



## THE TRANSFER OF ECONOMIC POWER

even of the right conceptual tools or framework. His prophecies have been almost without exception falsified, and his conceptual tools are now quite inappropriate.

But this is no reason for adopting the current fashion, and sneering either at the man or his achievement. Intellectually he remains a towering giant amongst socialist thinkers, a man of the stature, in other fields, of Freud and Keynes, and very few others over the last hundred years. His analytical insight into the essential, dynamic nature of nineteenth-century capitalism, the range and sweep of his interests, his grasp of the crude reality underlying the surface parliamentary struggles, his passionate conviction, the wit and compelling power of his language – all these, even now, have an electric effect on the reader, and make the work of his contemporaries amongst the classical economists seem by comparison flat, pedestrian, and narrowly circumscribed. And his astonishing output was the work of a man in constant pain, who was often underfed, always poor, living usually in conditions of squalor and privation, with the dun and the bailiff never far away.

This was a feat of self-sacrificing devotion and dedication not often paralleled in the history of letters. No doubt Marx had many unpleasant traits of character; and his teaching, if only because it relates to conditions that have long since passed away, holds little relevance to-day. But the man was a dedicated genius; and only moral dwarfs, or people devoid of imagination, sneer at men like that.

## II *The Theory of Capitalist Collapse*

The belief that the 'inner contradictions' of capitalism would lead first to a gradual pauperisation of the masses, and ultimately to the collapse of the whole system, has by now been rather obviously disproved. Both total output and working-class standards of life have steadily risen. The British net national income, in real terms, was  $3\frac{1}{2}$  times as high in 1938 as in 1870, and income per head  $2\frac{1}{2}$  times as high;<sup>1</sup> and real wages moved roughly in line with income per head.

<sup>1</sup> A. R. Prest, 'National Income of the United Kingdom, 1870-1946', *Economic Journal*, March 1948.

## THE TRANSFORMATION OF CAPITALISM

Faced with this evidence of growth, Marxist scholars made various attempts to salvage something of the master's theory. On the one hand, some maintained that the increasing misery was never expected to manifest itself until the latter days of capitalist decline, and that in fact 'the first foreshadowings of increasing misery appeared in the first decade of the twentieth century',<sup>1</sup> and still more plainly in the inter-war period. But even this modified version finds no support from the facts. The real national income rose by 55% from 1900 to 1938, and by 31% during the inter-war period.<sup>2</sup> Again the working class shared fully in the rise, with wages maintaining their proportion of the total. It is true that the rate of growth was lower in the inter-war period than during the second half of the nineteenth century, and that the 1931 depression was, by historical standards, exceptionally severe; but the growth nevertheless continued.

The other line of defence was to suggest, although very much against the evidence, that Marx did not intend to say that the working class would become absolutely, but only relatively, poorer;<sup>3</sup> or if he did not mean this, at any rate it was still the significant point.<sup>4</sup> But again the facts oppose. The share of wages in the national income fluctuated only within narrow limits before the war; and since 1939 there has occurred the significant redistribution of income towards the working class described in the next chapter.

There was thus no evidence, even in 1939, of growing pauperisation, nor that capitalism as an economic system, painful and unsatisfactory in many ways though its performance was, was at all near the point of collapse. And now, for a decade since the end of the war, the British economy, whether or not we still choose to call it capitalist,<sup>5</sup> has singularly improved its performance. Full employment has replaced depression; the instability is vastly less; and the rate of growth appreciably more rapid.

From 1948 to 1954 the British national income rose, in real

<sup>1</sup> Cole, *op. cit.*, pp. 112 seq.

<sup>2</sup> Prest, *loc. cit.*

<sup>3</sup> This view is impossible to reconcile with Marx's language. For example: 'Along with the constantly diminishing number of the magnates of capital . . . grows the mass of misery, oppression, slavery, degradation, exploitation'. (*Capital*, Glaser, 1920 ed., Vol. II, pp. 788-9.)

<sup>4</sup> Cf. Joan Robinson, *An Essay on Marxian Economics* (Macmillan, 1942), Ch. 4.

<sup>5</sup> *v.* Chapter III.

## THE TRANSFER OF ECONOMIC POWER

terms, by 20%<sup>1</sup>—a figure only slightly below that (22%)<sup>2</sup> achieved in the U.S.A., conventionally saluted as the world's most productive economy. Output per man-year has risen by about 2½% per annum since 1948,<sup>3</sup> and by 3% per annum in manufacturing industry.<sup>4</sup> These figures are higher than those attained before the war. From 1907 to 1924 output per man-year in British industry rose by ½% per annum, and even during the recovery period 1933 to 1939 by rather less than 2½% per annum.<sup>5</sup>

The British post-war performance also compares favourably with that of other countries. The Sixth Report of the O.E.E.C. shows that with the possible exception of Sweden, industrial productivity has risen by more in Britain since before the war than in any other European country;<sup>6</sup> while the rise since the war has been almost exactly the same as in the United States.<sup>7</sup>

It is thus clear that the British economy is now behaving in a reasonably buoyant and productive manner; and there is certainly no sign of imminent collapse. And my own view, which I discuss in detail in the economic chapters,<sup>8</sup> is that at least the present rate of growth will continue, and that the future is more likely to be characterised by inflation than by unemployment.

This change in the economic climate, and hence in the starting-point for any analysis of the future, would alone suffice to out-mode the greater part of the pre-war literature. It is easy to forget to-day, not merely how unanimous socialist writers were in anticipating the collapse of capitalism,<sup>9</sup> but how completely

<sup>1</sup> *National Income and Expenditure 1955* (Blue Book), p. 9. I am grateful to Mr. Michael Stewart of the Oxford University Institute of Statistics for help in collating and checking the figures in this and the next paragraph.

<sup>2</sup> *Economic Report to the President*, January 1955.

<sup>3</sup> Blue Book, and London and Cambridge Economic Service *Bulletin*, December 1955. (This Bulletin will henceforth be referred to by the initials L.C.E.S.)

<sup>4</sup> O.E.E.C. *General Statistics*, November 1955, p. 10 and p. 58.

<sup>5</sup> E.C.E. *Economic Survey of Europe* in 1949, p. 205.

<sup>6</sup> O.E.E.C. *Sixth Report*, Vol. I, March 1955, p. 61.

<sup>7</sup> O.E.E.C. *General Statistics*, loc. cit.

<sup>8</sup> v. especially Chapters XVIII and XIX.

<sup>9</sup> In a review of the economic literature of the 1930-1945 period, Professor D. McC. Wright notes that 'the majority of socialists and all communists assume that if any important time-span is to be considered, capitalism has no prospects, therefore the left tends to concern itself at most with the problems of transition'. ('The Prospects for Capitalism', in *A Survey of Contemporary Economics*, ed. Howard S. Ellis, Blakiston, 1948, p. 449.)

their analytical systems, their prophecies, and their recommendations, all hinged on this central belief. Faced with this awful, yet hopeful, prospect, they viewed the future with natural alarm, it is true, yet with the exhilaration which comes when the moment of decision is finally at hand, and all problems of choice are left behind. Since then, alas, the mischievous enemy has retreated, and gone into disguise as well; and the simple orders for a backs-to-the-wall defence must be countermanded, and replaced by a more elaborate but less exciting plan.

## III *The Pre-war Power of the Business Class*

The second Marxist assumption, on which also much pre-war socialist analysis was based, was that society was effectively controlled by a capitalist ruling-class which held all or most of the important levers of power. Now Marxist theory does not, as later chapters show, provide a satisfactory basis for the analysis of either the class system or the distribution of power; its scope is too restricted, and the categories too narrow.

Nevertheless, if we confine ourselves to one particular aspect of *economic* power, and accept that we are not discussing the whole subject of power in modern society, we may say that the pre-war 'capitalist' class possessed this power to a marked degree, and wielded it with a good deal of ruthlessness.<sup>1</sup> This is the power to make, or at least predominantly influence, both the major production-decisions (whether, how much, how, what, and where to produce) and distribution-decisions (about the division of the national income between different social groups), the first being of course much easier to determine than the second. Such power requires effective control both at the perimeter (that is, in the firm or industrial unit) and at the centre (that is, at the seat of government).

The pre-war capitalist class broadly possessed this control. In

<sup>1</sup> The adjective 'capitalist' is not, it is true, entirely exact, since it has to embrace salaried business executives as well as industrialists drawing their power from the traditional capitalist source of industrial property-ownership. Nevertheless it is a not wholly misleading shorthand for the pre-war class of business leaders, many of whom still retained a considerable ownership stake in industry; while even those who did not continued to adopt a predominantly capitalist standpoint in the sense that they held the interests of property to be paramount.

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some respects, it is true, its economic power had contracted over the years with the steady accretion of influence to both the political and industrial Left, and the general growth of democratic sentiment and social conscience. Yet in other ways it had grown as a result of technical and economic changes. The trend towards large scale in industry, and the inter-war trend towards monopoly, meant that the decisions of a single firm or cartel had an increasing impact on society; a smaller number of individuals took decisions that affected a larger number of their fellow-citizens. At the same time, the growth of monopoly weakened the element of consumer influence which competition to some extent preserves.

The economic power of the business class both at the perimeter and the centre can best be gauged by recalling what was in some ways the most symbolic, as in others it was the most traumatic, incident of the 1930s – the story of Jarrow.<sup>1</sup> Jarrow was condemned, physically to a decade without jobs, psychologically to a decade without hope, as a result of two decisions: first, to close down the shipyard on which almost the whole town depended for its livelihood; secondly, to prevent, by the refusal of a guaranteed share in a fully-controlled home market, the construction of a modern, integrated steel plant.

Now the immediate issue is not whether these decisions were right or wrong from a strictly economic point of view, but what they implied for the distribution of economic power. Both were taken by private monopoly bodies (National Shipbuilders Security Ltd. and the Iron and Steel Federation). Both were taken over the passionate protests of the workers and the local community, and in the face of a public opinion strongly aroused by such dramatic incidents as the famous Jarrow hunger-march, as well as by the flood of stories of local suffering and distress. Both were taken solely in the light of short-term profit considerations, and were influenced neither by the social and humanitarian arguments on the other side, nor by the long-term public interest in the capacity and location of two such strategically important industries. And both were taken with the sanction of the Government, despite the storm of protests and appeals.

The refusal of the Government to intervene afforded striking

<sup>1</sup> For an account of this episode, v. Ellen Wilkinson, *The Town that was Murdered* (Gollancz, 1939).

evidence of the continued subservience of the political authority, despite the revulsion caused by the Great Depression, to the interests of business. Right-wing governments, largely composed of businessmen and wedded to an ideology of *laissez-faire*, were firmly opposed to interfering in the 'legitimate preserve' of private industry. When they did intervene, it was not to limit the economic power of private enterprise, but on the contrary to give additional sanction or support to its policies. Tariffs, industrial subsidies, Marketing Boards – all these interventions were at the behest of the producers concerned, and designed to strengthen their monopoly position. The weight attached by the Government to the (supposed) interests of the business class was most conspicuously (and painfully) demonstrated by its refusal to adopt any effective employment policy, whether the sort of expansionist anti-depression policy being widely tried out in other countries, or even a more limited policy of locating new factories in the Distressed Areas.<sup>1</sup>

## IV *The Loss of Power by the Business Class to the State*

To-day the capitalist business class has lost this commanding position. The change in the balance of economic power is reflected in, and may be inferred from, three developments. First, certain decisive sources and levers of economic power have been transferred from private business to other hands; and new levers have emerged, again concentrated in other hands than theirs. Secondly, the outcome of clashes of group or class economic interests is markedly less favourable to private employers than it used to be. Thirdly, the social attitudes and behaviour of the business class have undergone a significant change, which appears to reflect a pronounced loss of strength and self-confidence.

The most direct and obvious loss of economic power has been to the political authority, which now exerts control over a much higher proportion of economic decisions than before the war. The public authorities<sup>2</sup> to-day not only employ 25% of the total

<sup>1</sup> For evidence of this latter failure, and the contrast with the record of the post-war Labour Government, *v.* Chapter II, Section V.

<sup>2</sup> Including the nationalised industries, which are discussed separately below.

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employed population, and are responsible for over 50% of total investment, but they wield a substantially greater power over business decisions even when these remain nominally in private hands.

This is largely a consequence of the explicit acceptance by governments of responsibility for full employment, the rate of growth, the balance of payments, and the distribution of incomes. The main instrument for exercising this responsibility is fiscal policy. Acting mainly through the Budget, though with the aid of other instruments, the government can exert any influence it likes on income-distribution, and can also determine within broad limits the division of total output between consumption, investment, exports, and social expenditure.

But it also exerts a powerful influence on production-decisions in individual industries – not only through a wider range of positive and negative indirect taxes (especially purchase-tax), which alter the pattern of demand and hence the relative attraction to producers of different lines of conduct; but, more important, through monetary, legislative, physical, and hire-purchase controls. It often fails to use these controls as effectively as the critics would like.<sup>1</sup> Nevertheless, it uses them to an extent which severely limits, as compared with the position under pre-war capitalism, the autonomy of business decisions.

Naturally the greater influence of the government would signify little if it were simply used to buttress the power, and underwrite the actions, of private business – if the state, in the Marxist phrase, were still the ‘executive committee’ of the capitalist class. But of course it is no such thing. The policies and attitudes of government are by no means the same as they were in the 1930s. The change is due mainly to a Leftward shift in the balance of electoral opinion, reflected not merely in six years of post-war Labour rule, but also in the significantly reduced majorities, by pre-war standards, of the succeeding Conservative Governments. Conscious of the slender electoral margin now separating the parties, and sensitive also to a fundamental change in public attitudes towards full employment and social welfare, these administrations have largely preserved the changes introduced by the Labour Government; and this has required the exercise of economic power on a scale, and in a direction, which would

<sup>1</sup> *v.* Chapter XXIV.

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never have been countenanced by pre-war Conservative Governments.<sup>1</sup>

The reality of the change is attested by the different outcome of clashes of group economic interests. These most obviously take the form of disputes over the distribution of income. The next chapter shows that a major redistribution of personal incomes has occurred, and that the gains have accrued largely to the workers, while the losses are at the expense of property-incomes – the share of net dividends, in particular, is much reduced. In addition, and indeed partly responsible for the smaller share of dividends, the taxation of profits is now much heavier than before the war despite an unceasing chorus of protests from business leaders. When private industry cannot even win its taxation battles against the government, something quite important must have changed.

Equally significant is the distribution of economic sacrifices in a crisis, for this reflects perhaps more accurately than anything else the ultimate location of power. Before the war, it was always the working class which bore the brunt. Since the war, the outcome has been quite different. It was a shrewd, though not over-friendly, American observer who remarked of the 1947 crisis that 'for the first time in British history the brunt of an economic crisis is not being borne by the workers'.<sup>2</sup> The best evidence of the change, at least during the period of Labour Government, was to be found in the intense antagonism of the better-off classes. 'Herein lay the whole secret of the middle classes' attitude to the Government, which ranged from white fury to hurt bewilderment. In 1921 they had suffered severely, but the working class had suffered too. . . . It was the same in 1931. . . . But now the Labour Government was talking about "equality of sacrifice", and the working class was not sacrificing anything; there weren't even any unemployed.'<sup>3</sup> Certainly the middle classes have come off distinctly better under the Tories. Yet a repetition of 1921 or 1931 is unthinkable even now; the national shift to the Left,

<sup>1</sup> The possibility that the Conservatives may behave differently in future is discussed in Chapter III, Section II. But to take one current example, no pre-war Conservative Government would have introduced the anti-monopoly legislation which has come from the present administration.

<sup>2</sup> Herbert L. Matthews in the *New York Times*, 25 November 1947.

<sup>3</sup> Roy Lewis and Angus Maude, *The English Middle Classes* (Phoenix House, 1949), p. 95.



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with all its implications for the balance of power, may be accepted as permanent.

The other test lies in social and political attitudes. Here the contrast with both the facts and the expectations of the 1930s was complete, most obviously during the period of Labour rule. Pre-war socialists often anticipated violent, if not unconstitutional, opposition from private business; and a whole theory of 'capitalist sabotage', ranging from a flight of capital abroad to a 'strike of capital' at home, was constructed on this premiss. The event was very different. Investment proceeded briskly, and indeed had to be restrained; the opposition to nationalisation, although vocal, was never violent; firms and Trade Associations co-operated amicably with Labour Ministers; there was no hint of sabotage; and generally the atmosphere was one of amiable amenability, not tinged with nervousness.

All this was partly, of course, a reflection simply of the extreme unplausibility of pre-war Marxist analysis. But it also reflected a consciousness on the part of industry that the balance of power had altered. This consciousness (and also the diminished capitalist influence within industry itself) was most conspicuously demonstrated by the acceptance of voluntary dividend restraint during the Crippsian era. Despite the outcry in the City press, the degree of co-operation was remarkable, and a striking sign of weakened capitalist self-confidence. Certainly company chairmen continued to fulminate in their annual speeches; but their actions were the reverse of aggressive.

The fact that governments now exercise this pervasive economic power, and that they do so from motives other than a desire to prop up private business, would be sufficient by itself to outmode most pre-war, semi-Marxist analyses of class power. 'Whatever the forms of state', wrote Laski in 1937, 'political power will, in fact, belong to the owners of economic power.'<sup>1</sup> This was hardly a very helpful or plausible statement even in 1937, in the light of the history of Nazism and Fascism. But if we are to make misleadingly simple statements of this kind, it would be more accurate to turn Laski's statement on its head: whatever the modes of economic production, economic power will, in fact, belong to the owners of political power. And these to-day are certainly not the pristine class of capitalists.

<sup>1</sup> *Liberty in the Modern State* (Pelican Edition, 1937), p. 52.

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the relation between wages on the one hand, and profits, employment, or the foreign balance on the other.<sup>1</sup> These factors had all changed in a manner favourable to labour even before 1939. Yet the strength of the Unions was still severely limited by large-scale unemployment; and they were obviously, and knew it, the weaker of the two contenders.

The change from a buyer's to a seller's market for labour, however, by transposing at once the interests, and therefore the attitudes, of the two sides, has dramatically altered the balance of power at every level of labour relations.

At the level of the individual worker, the decisive change relates to the question of dismissal. The employee, for whom dismissal before the war was often a sentence of long-term unemployment, can now quickly find a job elsewhere; and he has lost, in consequence, his fear of the sack, and with it his docility. The employer, on the other hand, who before the war could replace a dismissed worker from a long waiting-list of applicants for jobs, may now have difficulty in finding any replacement at all; and he has acquired, in consequence, a reluctance to dismiss, and himself has become more docile. Thus the balance of advantage is reversed, and the result is a transformation of relationships at the shop-floor level.

At the level of the plant or firm, the main change lies in the altered attitude of the two sides towards their ultimate weapons of coercion – the strike and the lockout. With unemployment, the employer can often well afford to endure a strike or initiate a lockout; the odds in the contest are on his side, while the cost of a stoppage, with stocks often high and market conditions unprofitable, may be relatively minor. But with full employment, the odds are quite different, since the workers can now hold out much longer; while the cost of a stoppage in terms of profits foregone is likely, with stocks perhaps low and a lucrative market demand, to be much greater. The employers' incentive to avoid strikes has thus increased in the same measure as the workers' prospects of winning them; the implications for the balance of power are obvious.

<sup>1</sup> Thus there was much less pressure for wage-reductions in 1931 than in 1921, partly because there was no general fall in prices as in 1921, but partly because employers now realised that competitive price-reductions would do them little good in the face of a rather inelastic consumers' demand, and with the certainty that their rivals would follow suit.

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These implications extend to relations at the level of the industry, and hence to the question of wage-settlements. In addition, the high profits associated with full employment naturally incline employers more readily towards wage concessions, which can be more easily passed on to the consumer, or absorbed by rising productivity, than under conditions of depression. Indeed, so eager is the demand for labour to satisfy the prosperous full-employment market that employers are often themselves responsible for (sometimes *sub rosa*) wage increases.

The different outcome of labour-management disputes, as compared with before the war, testifies clearly to the shift of power. Wage-demands, now made annually in most important industries, are regularly conceded by employers to an extent which arouses constant alarm amongst economic commentators. Again and again a large wage-claim is submitted, which the entire financial press condemns as dangerous and unrealistic; a few weeks later it is quietly but generously settled by the employers concerned. To take two industries at opposite ends of the scale of prosperity, neither the engineering nor the railway unions to-day would feel much doubt about where the balance of industrial power lay. Indeed, people are now more nervous lest the Unions may *abuse* the new bargaining strength conferred on them by full employment.<sup>1</sup>

The outcome of strikes and lockouts is similarly a reversal of the customary pre-war pattern. In fact the employers have virtually abandoned the use of the lockout; while a much higher proportion of strikes culminate in a climb-down on the part of management. Indeed, employers have partially ceded their most fundamental power of all – to decide who, and how many, to employ; both these decisions are sometimes reversed under the threat of a redundancy strike, or a stoppage over the dismissal of a particular individual. This is a far cry from 'wage-slavery'.

But perhaps the change is most conspicuous, in terms both of actual policy and social attitudes, in the relations between the Unions and Conservative Governments. Here one can speak, without exaggeration, of a peaceful revolution. One cannot imagine to-day a deliberate offensive alliance between Government and employers against the Unions on the 1921 or 1925-6

<sup>1</sup> I am not concerned here with whether or not they do abuse it – that is discussed in the chapter on wages – but simply with the fact that it exists.

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or 1927 model, with all the brutal paraphernalia of wage-cuts, national lockouts, and anti-Union legislation; or, say, a serious attempt to enforce, as so often happened in the 1920s, a coal policy to which the miners bitterly objected.

Instead, the atmosphere in Whitehall is almost deferential, the desire not to give offence positively ostentatious. We see cordial and intimate meetings at No. 10. One Conservative Minister publicly rebukes a firm for declaring redundancy without prior consultation with the Unions. Another, forced to choose between the National Union of Mineworkers and a pressure-group of his own back-benchers, unhesitatingly chooses the former. The Cabinet firmly resists all efforts to bring Trade Union restrictive practices within the orbit of the Monopolies Commission. Industrial legislation is planned only after the most anxious consultation with the Unions. And in 1955, twenty-eight years after the Trade Disputes Act, the Conservative Government, in the face of considerable public clamour, unites in adamant opposition to proposals for 'outlawing' even unofficial strikes.

### VII *The Psychological Revolution Within Industry and the Altered Role of Profit*

So far we have considered the loss of economic power by the business class as a whole to forces external to itself. But internal changes have also occurred within industry which significantly reduce the power of the capitalist class relative to other managerial classes. These changes were already perceptible before the war; but they have accelerated in the last decade.

The first, a consequence of the growing scale, complexity and technical intricacy of modern industry, is the increasingly specialised nature of business decisions. The gifted amateur is more and more at a discount; and even the professional top executive sometimes finds his decisions almost pre-determined (especially in regard to investment) by technological or research considerations. As a result, although the ultimate power of course remains in the hands of the top 'lay' management, more and more influence passes to the technical experts and specialists – the new 'organisation men' with the 'long-haired know-how', to use the current American slang: the plant engineer, the research

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chemist, the market research experts, the corporation lawyers, and the like. This partial change in the character of the decision-making function naturally calls for men with a different outlook and equipment, and therefore different interests and motives, from those of the traditional capitalist. One sign of the change is the growing number of scientists and specialised technicians appointed to boards of directors.

But much more significant, though many socialists are reluctant to admit it, is the change in the psychology and motivation of the top management class itself. This is partly, though by no means solely, a consequence of the now well-documented change in the composition of the business-executive class. The divorce between ownership and management, and the relative growth of the joint-stock corporation with fragmented shareholding, were of course already evident before the war. But the process has been further accelerated since by the continued growth in the scale and hence the financial requirements of industry, by a level of taxation which bears relatively more heavily on the small private business than on the public company, and by the effect of higher death duties in compelling the conversion of private into public companies. Business leaders are now, in the main, paid by salary and not by profit, and owe their power to their position in the managerial structure, and not to ownership. Meanwhile, the nominal owners have largely lost even the residue of control which they retained before the war.

And top management to-day is independent not only of the firm's own shareholders, but increasingly of the capitalist or property-owning class as a whole, including the financial institutions. As compared with the inter-war period, a higher proportion of profits is ploughed back into the business, and a higher proportion of capital expenditure is financed internally and not by recourse to outside capital. It is true that the Marxist prophecy of the transition to 'finance-capitalism', as industry fell more and more into the clutches of the City and the banks, was never at any time wholly fulfilled in Britain. But the financial difficulties created by the depression caused at least a trend in that direction before the war; and there were certain important industries in which management was, in consequence, extremely susceptible to outside financial pressure.

To-day, however, a decade of prosperity and high gross profits,

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combined with a lower ratio of dividend distribution, has greatly fortified the financial strength and independence of most public companies. Despite the increased weight of taxation, undistributed profits are normally sufficient (taking industry as a whole) to finance the whole of industrial capital formation – with a good deal, indeed, to spare. Naturally some firms still need to borrow or make new issues of share-capital; but internal company savings, relative to investment, are now higher than before the war.<sup>1</sup> The economic power of the capital market and the finance houses, and hence *capitalist* financial control over industry (in the strict sense of the word), are thus much weaker. This change alone makes it rather absurd to speak now of a capitalist ruling-class.

The decline of capitalist control does not of course mean that the profit-motive has disappeared, or that profits are less important. It is a mistake to think that profit, in the sense of a surplus over cost, has any special or unique connection with capitalism. On the contrary, it must be the rationale of business activity in any society, whether capitalist or socialist, which is growing and dynamic.<sup>2</sup> But with the divorce between ownership and management, the role of profit has undergone a subtle change, which leads to a consequential change both in the distribution of profit, and in the intensity with which maximum profits are pursued.

The contemporary business leader does not want high profits primarily as a source of high personal income or consumption; since he does not own the business, he cannot, as his capitalist predecessor often used to do, withdraw large sums from it for his own enjoyment. Nor does he seek high profits primarily in order to maximise the reward of shareholders. He seeks them – partly, of course, because in the long run his own remuneration depends on the success of the company: but mainly because his social status, power, and prestige depend directly on the level of profits. This is both the conventional test of business performance, and the source of business power. It determines both the strength and prestige of the firm, and the power and social status of its executives. Thus profit remains an essential personal and corporate incentive – but largely as a source of strength and

<sup>1</sup> Detailed evidence for all these statements will be found in Chapter XX.

<sup>2</sup> *v.* Chapter XX, Section I.

influence, and not as an avenue to a privileged consumption-position for the capitalist. The implications for the distribution of income, as the shareholders' champions well realise and the figures of dividend payments demonstrate, are of course profound.

A further result of this change is a less aggressive pursuit of maximum profit at all costs. Profits are seen partly as a source of social prestige. But in the climate of the welfare state, they are far from being the only such source. The business leader can also acquire prestige by gaining a reputation as a progressive employer, who introduces co-partnership or profit-sharing schemes; or by being known to possess a high standing in Whitehall, and to have the ear of Ministers, an obvious candidate, perhaps, for Royal Commissions and National Advisory Councils; or by enjoying an outstanding local and civic reputation, as a benefactor, a helpful friend to the City Council, a member of the Court of the civic University; or by displaying obvious patriotism, and devoting a lot of time to the British Productivity Council; or simply by being an intellectual, who broadcasts and writes in Bank Reviews, or makes speeches at the British Institute of Management or Nuffield Conferences at Oxford. Such activities are increasingly common and well-regarded.

All this represents, I believe, a profound change in the social climate, which communicates itself even to the sphere of business decisions. Thus private industry to-day tends to be very sensitive to public opinion, and to its own notion of the public interest, even though no specific threat or sanction may have to be feared either from the government or from labour. This is evident even in respect of price policy. Price-determination is not now simply a matter of crude profit-maximisation, or invariably directed to the greatest possible exploitation of the consumer. It is at least influenced by notions of what constitutes a conventionally fair and reasonable price, which will be acceptable as broadly in the public interest, and immune from accusations of over-charging. For a long time after the war, for example, there were many goods, such as motor-cars, for which a huge pent-up demand existed, and which would have commanded an enormous price in a free market. Yet manufacturers, almost without exception, held prices down to what they considered a 'fair' and 'reasonable' level, well below the market or profit-maximising price. No doubt considerations of long-run goodwill played a part in

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this deliberate moderation; but the prevailing social climate also played a part.<sup>1</sup>

The traditional capitalist ruthlessness has largely disappeared from other spheres as well: from that of investment policy – few firms to-day, quite apart from the certainty of government intervention, would even try to repeat the Jarrow story; or policy towards competitors, dealers or suppliers, who are seldom driven into bankruptcy with quite the vigorous *élan* of thirty years ago; and most obviously, in the many ways described above, from labour policy.

The talk, and part of it at least is genuine, is now of the social responsibilities of industry – to workers, consumers, the locality, retiring employees, disabled workers, and in America, where business benefactions are on a gigantic scale, to universities, research foundations, and even symphony orchestras. Aggressive individualism is giving way to a suave and sophisticated sociability: the defiant cry of ‘the public be damned’ to the well-staffed public relations department: the self-made autocratic tycoon to the arts graduate and the scientist: the invisible hand, in Mr. Riesman’s phrase, to the glad hand. Private industry is at last becoming humanised.

I do not mean that all businessmen now behave as though they were *manqué* philanthropists or social reformers – many manifestly do not.<sup>2</sup> But I do believe that the trend is in the direction I describe: that most businessmen are at least tinged by these more social attitudes and motives: and that those who most obviously express the change are coming to set the tone for industry as a whole. At any rate, we have here a definite contrast with a generation ago.

This psychological change of course fuses with, and reinforces, the change in attitudes to the state and the Trade Unions described above, and due simply to the loss of economic power. In practice one cannot disentangle the two influences, or say precisely which is cause and which effect. Nor indeed does it very much matter. Even supposing the motives behind the more diplomatic and humane behaviour to be of the narrowest and

<sup>1</sup> Resale price maintenance, contrary to what business spokesmen sometimes say, of course played no part at all so far as the manufacturers were concerned.

<sup>2</sup> And the exceptions are often outstanding for drive, efficiency, and innovation. The decline in ruthlessness may conceivably exact a price in terms of economic growth.



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most self-interested kind, deriving solely from a consciousness of weakness, it would make no difference to our analysis – indeed it would be the more convincing proof of the altered configuration of power. And no doubt a large part of the change is to be so explained. Yet I doubt if this is the whole explanation – especially as the decline in the ideology of aggressive individualism even has its reflection within the business itself, where decision-making is more and more passing from the individual to the team.

This is not due solely to such technical influences as the greater number of variables and their increasingly specialised character, which virtually compel a group approach to decision-making. It is also due to a change in ethos, from the cult of the individual to the cult of teamwork. This explains the almost obsessive contemporary emphasis on co-operation, participation, communication, ‘democratic leadership’, ‘permissive management’, and all the rest of the slogans of ‘progressive’ management. The old-style capitalist was by instinct a tyrant and an autocrat, and cared for no one’s approval. The new-style executive prides himself on being a good committee-man; and subconsciously he longs for the approval of the sociologist. He dreads any suggestion of high-handedness, or hint that he has failed to consult his colleagues. Above all the staff must work as a team; and where once the apt analogies for business behaviour were taken from war, now they are taken from sport. As one of the shrewdest observers of American industry has written: ‘If our society comes to an end it will not be with a bang or a whimper. The sound track will be the soft tinkle of rimless glasses on a conference table.’<sup>1</sup>

### VIII *The Political Power of Private Industry*

But whatever may or may not be happening in the realm of managerial psychology, it is indisputable that the economic power of the capitalist (i.e. industrial property-owning) class is enormously less than a generation ago; while even that of the managerial business class is significantly restricted by the new

<sup>1</sup> William H. Whyte, *Is Anybody Listening?* (New York, 1952), p. 223.

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economic activism of governments, and the greater strength of organised labour.<sup>1</sup>

Nor am I personally much alarmed by the alleged political power of private industry. Socialists sometimes become very disturbed by the activities of such bodies as Aims of Industry, or the publicity campaigns launched by firms threatened with nationalisation, such as Tate and Lyle in 1950 or I.C.I. in 1955. But what is surprising over the last decade is not how much, but how little, aggressive 'free enterprise' propaganda there has been: and not how effective, but how ineffective, most of it has proved. The exceptional cases, where it has been both determined and effective, as in the two nationalisation instances just quoted, are largely to be explained by the failure of the Labour Party to put forward effective counter-propaganda, or to make clear to the country (and even to the workers in the firms concerned) just why it wanted to nationalise sugar in 1950 (but not in 1951 or 1955), and chemicals in 1955. And one can hardly blame an industry threatened with nationalisation for defending itself by any constitutional means; one only hopes that the Trade Unions (which in fact have more political power under a Conservative, than private industry has under a Labour Government) or the Co-operative Movement, if they were threatened by some Conservative electoral proposal, would be at least as vigorous and vocal in their own defence.<sup>2</sup>

Even the resistance of the steel industry in 1950-51, which met with such shocked surprise in some Labour quarters, does not appear to disprove this view.<sup>3</sup> It never went, in terms of political action, beyond what the Trade Union movement is well accustomed to undertaking. It was not economically effective, since steel output continued to rise under nationalisation despite the refusal of the industry's leaders to serve on the nationalised Board.

<sup>1</sup> It may also be said to be restricted, in another direction, by the probability – the evidence is not yet conclusive – that the degree of monopoly and concentration in the economy as a whole, after growing steadily for 40 years, decreased between 1939 and 1950 (though it appears to have increased again slightly since 1951).

<sup>2</sup> The fact that firms threatened with nationalisation often hurry to introduce profit-sharing schemes and the like may be taken as positively confirming the general argument of this chapter.

<sup>3</sup> And of course the acceptance by the steel industry, under the threat of nationalisation, of a Government Control Board with a power of veto over prices, and some powers of supervision even over investment decisions, is itself evidence of the altered balance of political power.

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And it enforced the delay and awkwardness which it did only because the Labour Government had a Parliamentary majority of seven, a very brief expectation of life, and a widely suspected division in its own ranks over whether to nationalise or not. In the light of these weaknesses (and the fact that the industry appeared to be performing reasonably well), the ability to force through the nationalisation of the 'strongest bastion of capitalist power' suggests that we distinctly over-rate, not under-rate, the power of private industry.<sup>1</sup> I believe, for reasons to be explained in Chapter XXII, that the argument for re-nationalising steel is irresistible. But it is not to-day, as it might have been in the 1930s, that a privately-owned steel industry wields a vast power of life-and-death, beyond the control of any government to limit, over either our political or economic destinies.

Of course the arguments presented in this chapter relate only to one manifestation of power in modern society, and that, in my view, of diminishing importance. Economic power, in the sense described in this chapter, and which rather naturally obsessed pre-war socialists when they were analysing capitalism, now poses fewer problems than other forms of power which have nothing to do with ownership or private industry as such, and indeed cut across the capitalist-socialist controversy.<sup>2</sup> These are first the power of the enlarged and bureaucratic state: secondly, the power of a small hierarchy of Court, Church, and influential newspapers, either to block reform or to impose its own social and moral standards on groups and individuals: and thirdly, the power of those who control the bureaucratic mass organisation, whether public or private – the B.B.C., the Coal Board, and the Trade Unions quite as much as I.C.I. or Unilever.

Some of these are discussed in later chapters.<sup>3</sup> I do not share all the current alarmism about the extreme menace which they present – what one might call respectively 'Crichel Down', 'Establishment', and 'managerial revolution' fears. Nevertheless I do believe that these aspects of power are of greater significance than the economic power to control production and

<sup>1</sup> For an opposite view, *v. The Labour Government and British Industry 1945-51* (A. A. Rogow and P. Shore, Blackwell, 1955).

<sup>2</sup> It is curious that the socialist, as opposed to the radical, tradition has comparatively little to say about any aspects of power other than the economic and political power of privately-owned industry.

<sup>3</sup> *v.* especially Chapters VIII and XI.

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distribution decisions, now that this is so much less concentrated and irresponsible than it was before the war.<sup>1</sup>

Again, statements about the decline in the economic power of the capitalist class are not to be taken as statements about *social* class. They do not imply that social class is necessarily any less pervasive or significant in Britain than it was, or even that no 'upper-class', in some sense of social status and prestige, can now be said to exist. Economic power is only one aspect of social class; and other aspects may remain just as relevant even though this one has diminished in importance. It is quite consistent to say both that Britain remains to an exceptional degree a 'class society', and that no ruling class exists in the narrow Marxist or economic sense.

The argument of this chapter is simply that the intellectual framework within which most pre-war socialist discussion was conducted has been rendered obsolete, first by the fact that the economy is growing at a rapid pace, and secondly by the fact that we now have a quite different configuration of economic power. These two fundamental changes, allied to the consequences, to be discussed in the next chapter, of achieving Labour's immediate policy objectives, call for a complete re-appraisal of the socialist position.<sup>2</sup>

<sup>1</sup> And now that the higher level and greater equality of purchasing power in any case make a divergence between 'production for use' and 'production for profit' much less likely (*v.* Chapter IV, Section III, and Chapter XXIV, Section III).

<sup>2</sup> In the light of certain events which have occurred since the text of this Chapter was written, I must emphasise that the argument is about underlying trends, to which of course exceptions will continue to occur. I do not mean to imply that production will go up every year, or that recessions will never occur, or that no firms will ever act in a high-handed manner. But the trends here described are, I believe, irreversible.

## II

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### THE ATTACK ON POVERTY, INEQUALITY, AND INSTABILITY

#### I *The Decline in Primary Poverty*

THE first of the immediate objectives, which were listed at the beginning of Chapter I – and it was of course these rather than long-run analysis which absorbed the attention of the official Labour Party – was the abolition of poverty. The well-known Rowntree investigation of York in 1936 had shown that 31% of the working-class population, and 18% of the total population, were living in poverty – and York was neither a Distressed Area, nor notably a slum city.<sup>1</sup> This conclusion was supported not only by other contemporary social surveys, but also by specific enquiries into health and housing standards;<sup>2</sup> it was shown, for example, that serious malnutrition prevailed amongst nearly one-third of the population, and malnutrition in a lesser degree amongst over one-half.<sup>3</sup>

These facts were a clear indictment of the existing system unless they were attributable simply to a lack of total resources. It would be absurd to blame the poverty of the Indian peasant wholly on the Indian political system – it follows inevitably from the poverty of the country as a whole. But such was not the case in Britain; for there was both considerable unemployment (averaging 14% of the insured population over the inter-war period)

<sup>1</sup> B. Seebohm Rowntree, *Poverty and Progress* (Longmans, 1941).

<sup>2</sup> For a summary of these, v. C. L. Mowat, *Britain between the Wars* (Methuen, 1955), Ch. 9.

<sup>3</sup> John Boyd Orr, *Food, Health and Income* (Macmillan, 1936), pp. 21 seq.

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and a high degree of inequality. It is not now disputed that 'want could have been abolished before the war by a redistribution of income',<sup>1</sup> or by a full employment policy; and its persistence was therefore a needless scandal, due to a deficiency not of material resources, but of the will to take the necessary action.

Post-war progress in this field can be conveniently measured, since Mr. Rowntree conducted a further survey of York in 1950, using the same methods as in 1936 with a suitable allowance for changes in the price level.<sup>2</sup> The results are thus directly comparable. He found that between these two dates the numbers below the poverty line had fallen from 31% of the working-class population to under 3%, or from 18% of the total population to 1.6%.<sup>3</sup> Thus nine-tenths of the poverty which existed in 1936 had disappeared. Moreover, there was a general rise in living standards at the lower end of the scale, and not simply a movement of those previously below the poverty line to a precarious position just above it. If the working-class population is divided into five income groups, the three lowest were not only predominantly above the poverty line in 1950, as they were not in 1936, but they had fallen as a proportion of the total population from 28% to 13%. There was thus a general upward movement within the working class, leaving the median standard of living appreciably higher.

The Labour Government is sometimes denied the credit for these inroads into poverty on the grounds either that the rate of progress from 1936 to 1950 was not abnormally rapid, or that even if it was, this was due to factors unconnected with Labour rule.

Poverty has, it is true, steadily diminished over the last half-century. But up to the Second World War, progress was painfully slow. Mr. Rowntree has shown that between 1899 and 1936 poverty in York was reduced by between one-half and two-thirds, and the *New Survey of London Life and Labour* reached a similar conclusion for London; other studies also suggest that over the three to four decades before the Second World War the incidence of poverty fell to rather over one-third of its level at the beginning

<sup>1</sup> The Beveridge Report: *Social Insurance and Allied Services* (Cmd. 6404), para. 445.

<sup>2</sup> B. Seeborn Rowntree and G. R. Lavers, *Poverty and the Welfare State* (Longmans, 1951).

<sup>3</sup> *op. cit.*, pp. 30-1.

of the period. This was a welcome improvement, but much less rapid than the fall to only 10% of the previous level which occurred between 1936 and 1950.

But was this more rapid progress due to specifically Labour policies, or to quite extraneous factors? Unfortunately, the first interpretation is often supported by an untenable argument. Many Labour spokesmen adopt Mr. Rowntree's approach of first calculating how much additional poverty would be caused by the withdrawal of a particular welfare measure, and then attributing a corresponding degree of credit to that measure for its part in reducing poverty. It is said, for instance, that if food subsidies had not existed in 1950 a further 11% of the working-class population would have been below the poverty line, from which it is deduced that food subsidies deserve the entire credit for the rescue of that 11%.<sup>1</sup>

But this is to assume that when food subsidies are raised or lowered, nothing else changes, and working-class incomes are affected by this one change alone. In fact, of course, things proceed differently, since the working class also pays large sums in taxation; and changes in subsidies will often be accompanied by changes in taxation.<sup>2</sup> Admittedly if a cut in the subsidies were balanced by tax reductions accruing entirely to the middle and upper classes, the above calculation might be justified. But this is unlikely, in view of the fact that the working class now pays in taxation a sum larger than it receives in social benefits.<sup>3</sup> It is therefore probable that some reduction in working-class taxation would occur; and the consequent increase in disposable money income would have to be set against the effect of lower subsidies in calculating the net result of the change.

The link between Labour policies and the reduction in poverty can, however, be more securely established. First, it can be shown that *per capita* personal consumption scarcely rose between 1938 and 1950, the large increase in output having been impounded for other and more urgent purposes (higher exports, investment, etc.).<sup>4</sup> Yet average *working-class* consumption rose, owing to a significant vertical redistribution of income which was certainly connected, as the next section will show, with post-war economic

<sup>1</sup> *op. cit.*, Chs. 4 and 5.

<sup>2</sup> *cf.* Chapter VII, Section III.

<sup>3</sup> *cf.*, for example, Professor Paish in *L.C.E.S. Bulletin*, March 1952, for details.

policies; and this general rise in working-class standards helped greatly to reduce the incidence of poverty.

Secondly, although the working class as a whole paid for all the additional social services through higher taxation, it by no means paid in equal amounts. The additional taxation and social services, taken together, represented a large transfer of income within the working class; and the net beneficiaries were mainly those groups (the old, the sick, and large families) which have always been the most susceptible to poverty.

It is sometimes claimed by Conservatives that these changes would have occurred whatever government had been in power. No doubt some new social services would have been provided. But in the light of the high and, to Conservatives, repugnant levels of taxation involved, and their reiterated pledges to make drastic cuts in government expenditure, it is hard to believe that a Conservative Government would not have used the balance-of-payments difficulties as an excuse for contracting out of the more ambitious of these reforms.

The history of the post-1918 period is relevant. Wars often generate a radical atmosphere, even on the Right. There is a mood of national unity; Left-wing parties come into a coalition Government; nothing is too good for the boys at the front; the old world seems to have gone for ever, and the new will demand big changes. In this mood even Conservatives find themselves assenting to far-reaching plans for social change. A Ministry of Reconstruction is set up; a Fisher Education Act is passed; Joint Industrial Councils are proposed; and millions of homes are to be built for millions of heroes. But after the war the reaction sets in; and the traditionalist forces regain their poise and confidence when they find that the deluge has not, after all, swept away all the world they knew. Very few of the wartime proposals were actually carried through after 1918. Perhaps a post-1945 Conservative Government would have done rather better, but it would surely not have been quite so eager as Mr. Attlee's Ministers were to create a Welfare State. If Conservatives were in fact so ardent, might they not have done a little more in the 1930s, when economic conditions were ideally propitious?

It is true that the post-1951 Conservative Governments have not dismantled the Welfare State, and are most unlikely to do so. But this proves nothing about what might have happened in



1945. The margin separating the parties is now too narrow, and the mood of the electorate too unfavourable, for any large reaction. And this, after all, is a recurrent feature of British politics, that a Government of the Right which follows one of the Left never undoes all the previous reforms. But this does not entitle it to share the credit for introducing them in the first place.

The Labour Government therefore deserves praise for a very considerable achievement. But the small figures of residual poverty quoted above must not be taken to mean that the whole matter can now be dismissed from mind. First, they measure only 'primary' poverty, that is, poverty due directly to insufficient earnings, and not avoidable even by the wisest household management. They take no account of 'secondary' poverty, due to ignorant or imprudent spending of earnings which, if they were wisely laid out, would give a bare sufficiency; and it is clear from social surveys that secondary poverty is still disturbingly prevalent.

Secondly, it must be remembered that the poverty-line was most stringently drawn up. It allowed a family of five, for example, a weekly expenditure of only 6s. 8d. on drink, tobacco, holidays, travel, gifts, books, etc. Any family below this line was thus living under what are, by contemporary standards, wholly uncivilised conditions; and those living just above it are little better off.

Thirdly, investigations of this kind give only an instantaneous, and not a moving, picture. The numbers living in poverty at any given moment are an inadequate guide to the numbers which experience poverty at some period during their lives. Even to-day many people fall below the poverty line when they have young children, and again when they reach old age.<sup>1</sup> Although no one, therefore, can challenge the broad picture which emerges, or deny the rapid strides made since 1936, poverty cannot yet be considered a problem of the past; and a later chapter discusses further welfare measures to combat it.<sup>2</sup>

## II *The Redistribution of Income*

The second objective was a redistribution of wealth, not solely

<sup>1</sup> The Rowntree-Lavers conclusions have also been criticised on more technical grounds (*v. Political and Economic Planning*, Vol. 19, No. 344).

<sup>2</sup> *v. Chapter VII.*

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in order to raise living standards at the lower end of the scale, but also because socialists disapprove of extreme inequality on wider moral and social grounds. And the inequality under pre-war capitalism was certainly extreme.

The share of wages in total private income had fluctuated around 40% since the turn of the century, and was not significantly higher in 1935 than in 1911;<sup>1</sup> the remaining 60% continued to accrue to the far smaller numbers living on salaries, rent, interest, or profits. In terms of income groups, in 1937 some 8,000 people received incomes of over £10,000 per annum, 101,000 between £2,000 and £10,000, while almost 20,000,000 people (or 11,000,000 households) received less than £250 per annum.<sup>2</sup> Mr. Colin Clark estimated that in the period 1929-35 1½% of the working population took 23% of total personal income, 10% took nearly half, and 90% had to be content with the remaining half.<sup>3</sup>

Taxation did not, contrary to a widespread belief, lead to any considerable redistribution from rich to poor. Dr. Barna calculated that in 1937 the working class received in benefits only £76 millions more than it paid in taxation; thus although the wealthier classes paid for the whole of unallocable 'communal' expenditure (defence, administration, interest on the National Debt, etc.), the tax system did not effect any large *transfer* of income.<sup>4</sup>

In the sphere of property, the inequality was even worse. In 1936, 1% of the population over 25 owned over half the total property in private hands, 5% owned 75-80%, while three-quarters of the population owned only 5% between them.<sup>5</sup> Nor had the operation of death duties significantly altered the picture, which remained much the same in 1936 as it had been in 1913.

During the war, the distribution of post-tax incomes became markedly more equal owing to the combination of full employment and high taxation. But the normal sequence of events, which occurred in Britain after 1918 and was to occur in other countries after 1945, would have been a gradual reversion to the pre-war

<sup>1</sup> Colin Clark, *National Income and Outlay* (Macmillan, 1937), Table 39, p. 94.

<sup>2</sup> J. R. Hicks, *The Social Framework* (O.U.P., 1942), p. 181.

<sup>3</sup> *op. cit.*, p. 110.

<sup>4</sup> T. Barna, *Redistribution of Incomes through Public Finance in 1937* (O.U.P., 1945), Ch. XVI.

<sup>5</sup> H. Campion, *Public and Private Property in Great Britain* (O.U.P., 1939), pp. 109-10.

distribution as emergency wartime taxation was steadily relaxed. It was Labour's responsibility to prevent this normal reaction; and its success in doing so must now be examined.

Changes in real income depend on changes in gross (pre-tax) income, in taxation, and in relative price-levels. Taking gross personal income first, between 1938 and 1950 wages increased their share of the total from 37% to 44%, salaries and professional earnings maintained their position, farmers' incomes doubled their share (from 1½% to 3%), sole traders and partnerships suffered a small fall, while dividends, rent, and interest fell from 24% to 15%. Thus before making any allowance for changes in taxation, we can observe a substantial transfer from unearned income to wages.

Whilst one cannot delineate the causes of this at all precisely, the following influences have clearly been important. First, a relative shift of labour has occurred out of the service and distributive trades (where the share of wages in the value of output is low) into manufacturing industry (where it is high). There are now relatively fewer ill-paid shop assistants and domestic servants, and more well-paid engineers and mechanics. Secondly, full employment has meant a larger than average proportionate rise (from unemployment insurance benefit to full wages) in the incomes of the previously unemployed section of the working class.

Thirdly, the war and post-war periods were characterised, in Britain as elsewhere, by an almost continuous fall in the value of money, due partly, from 1945 onwards, to rising import prices. The Trade Unions are now strong enough in such circumstances to win increases in money wages sufficient at least to maintain the value of real wages. But salaries, professional incomes, rent, and interest are always stickier, and tend to lag behind the rise in prices. This natural tendency was reinforced by certain Government controls, such as that over rents.

Fourthly, quite apart from the behaviour of wage rates, workers' earnings are exceptionally flexible at the margin to changes in output. A rise in production, whether due to higher demand or improved productivity, is automatically reflected, in a way that does not occur with other incomes, in higher piece-rate earnings, more overtime at higher rates, and higher bonus earnings. Thus in any period of rapidly rising output, such as that since the end of the war, wage-earnings tend to gain

relatively, and would so gain even though wage rates were only rising (as in fact they were not) *pari passu* with other incomes.

Lastly, companies, from a mixture of economic pressures (high replacement costs and high taxation) and political considerations (fear of a Labour Government and dividend limitation), have pursued a much more conservative dividend policy than before the war; and dividends have fallen significantly as a proportion of total income.<sup>1</sup>

The change in income distribution of course becomes still more pronounced when we consider the effects of taxation. The official figures do not permit so detailed a breakdown of post-tax income as that given above for pre-tax income. But taking the broader categories of the National Income White Papers, wages in 1950 took 47% of post-tax personal income compared with 39% in 1938, salaries maintained their pre-war share of 25%, while the portmanteau category 'rent, dividends, and interest', which here includes the incomes of farmers, professional men, sole traders, and partnerships, fell from 34% to 25%.<sup>2</sup> But Mr. Dudley Seers has calculated that almost the whole of this fall was borne not by the professions, farming, or small traders, but by property-incomes, which took 11% of post-tax income in 1949 compared with 19% before the war.<sup>3</sup>

Calculations have also been made in terms of number-groups of incomes, showing both the altered share of the total taken by each group, and the change in the aggregate post-tax income of each group after allowing for price changes.<sup>4</sup>

	% of total personal income after tax		Real net income as % of
	1938	1949	1938
1st 100,000 incomes.	7.9	3.3	44
1st ½ million incomes	16.8	9.8	62
1st million incomes	23.0	15.1	70
1st 5 million incomes	48.6	39.8	87
2nd 5 million incomes	18.3	20.8	121
Remainder <sup>5</sup>	33.1	39.4	127

<sup>1</sup> For details, v. Chapter XX.

<sup>2</sup> Cmd. 7933 and Cmd. 8203. The remaining 3% is accounted for by the pay of the Armed Forces.

<sup>3</sup> *Bulletin of the Oxford Institute of Statistics*, Vol. 12, No. 10. (This Bulletin is henceforth referred to as *Bull. Inst. Stat.*)

<sup>4</sup> These figures are taken from Paish, loc. cit.

<sup>5</sup> Estimated at over 13 million.

These figures give an exceptionally clear picture of the gains made by the lower at the expense of the higher incomes; in broad terms, the top 3 million incomes were all lower in real terms than before the war, and the remainder all higher.

This further levelling of incomes by taxation was due to two causes. First, direct taxation rose as a proportion both of net national income (from 9% in 1938 to 18% in 1950) and of total taxation (from 35% to 67%).<sup>1</sup> Secondly, direct taxation has become markedly more progressive. Comparing 1950 with 1938, a single man whose income was wholly earned paid only £28 more in tax on an income of £500; £98 more on £1,000; and £2,280 more on £10,000, reducing his net income from £5,867 to £3,587. A similar steepening of rates occurred in respect of death duties. In addition, heavier corporate taxation made a further contribution by reducing the net profits available to companies for distribution, and so restraining the rise both in dividend disbursements and share prices.

It is sometimes pointed out that although this higher and more progressive direct taxation has had an important *levelling* effect on the distribution of net incomes, nevertheless the tax structure is not markedly more *redistributive* than before the war; that is, it does not effect a larger direct transfer of income from rich to poor. This is correct. It can be shown that the increased social benefits which accrue mainly to the working class are more than balanced by the increase in working-class taxation, and that the large additional sums collected from the middle and upper classes are absorbed by higher 'unallocable' benefits (defence expenditure, Budget surplus, Government staffs, interest on the National Debt, etc.).<sup>2</sup>

But this may give a misleading impression unless it is realised that a lower level of direct taxation would have given a much less favourable distributive picture. In the light of the ceaseless complaints from orthodox financial circles about the 'crushing burden' of direct taxation, it seems likely that a Conservative Government would have greatly reduced direct taxation, and balanced this not by a reduction in unallocable benefits, but by a rise in net working-class taxation, effected probably through

<sup>1</sup> v. I. M. D. Little, 'Fiscal Policy', in *The British Economy 1945-1950*, ed. G. D. N. Swinick and P. H. Ady (O.U.P., 1952), p. 186.

<sup>2</sup> v. Chapter VII for details.

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a cut in net social benefits. The working class would then have paid much more in taxation than it received in allocable benefits, and would have made a substantial contribution to the 'neutral' services of the State.

Moreover, as Mr. Little has pointed out,<sup>1</sup> the redistribution of pre-tax incomes towards the working class created a new problem in public finance. Since the workers normally save a smaller proportion of their incomes than the well-to-do, it was necessary, if inflation was to be avoided, to maintain a high level of public saving through a Budget surplus. This surplus, which was a necessary condition of preserving the greater equality of pre-tax incomes, was covered by higher direct taxation of the well-to-do. Had it not been, as it might not have been under a Conservative Chancellor, there would either have been an inadequate surplus, leading to a violent inflation; or the deficiency would have been made good by higher net taxation of the workers, who would then have lost in taxation much of what they had gained by the redistribution of pre-tax incomes. Thus fiscal policy preserved, where it might easily have dissipated, the redistributive gain accruing to wage-earners from full employment.

It is therefore somewhat misleading to say that the redistributive effect of fiscal policy was zero. The changed conditions of post-war society were such that the working class might well have had to bear a large burden of net taxation. In fact it did not; and the gain in its living standards from the more equal division of gross incomes was fully maintained. At the same time, the levelling effects of the tax structure were sharply intensified by the steepening of direct taxation, with the result that the distribution of post-tax incomes became much more egalitarian than before the war.

### III *Income Equality To-day*

Adding the influence of relative price-changes to the movements in gross incomes and taxation, we may sum up, using Mr. Seers' figures,<sup>2</sup> the extent of the post-war change in net real incomes. Real wages in 1949 were 122% of their 1938 level, salaries 96%, professional earnings 89%, sole traders' profits 78%, and rent, dividends, and interest 51%.

<sup>1</sup> loc. cit.

<sup>2</sup> loc. cit.

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Taking percentage shares in total net personal real income, wages rose from 37% to 47%, while rent, dividends, and interest fell from 20% to 10%; the remaining categories between them roughly maintained their share. Thus the outstanding change was a transfer of 10% of total disposable income from property-owners to the working class. Unearned income in 1949 took only one-tenth of the total; farmers, the professions, and small traders took a further one-tenth; while wages, salaries, social service beneficiaries, and the armed forces took 80% between them. Looked at in another way, Mr. Seers has calculated that 'taking about one-sixth of the population in the upper income bracket in each case, the average real income of the upper bracket was about  $3\frac{1}{2}$  times that of the lower in 1938, and twice that of the lower in 1948'.<sup>1</sup>

These are notable changes, which correspond with the results of personal observation. But two obvious warnings must be entered. First, some part of the improvement will be undone by a continuation of Conservative rule, though it is most improbable that the major part will fall; this danger is considered in the next chapter. Secondly, real consumption and living standards, especially those of the wealthier classes, do not depend solely on real taxable income, but on two other factors also: physical limitations on consumption, and untaxed sources of expenditure. These pull in opposite directions.

During the immediate post-war years, certain physical restrictions reduced the expenditure of the rich below the level which their incomes would have permitted. The acute scarcity in the labour market reduced the number of domestic servants to perhaps one-quarter of the pre-war figure; rationing had an obvious levelling effect on food consumption; building licence controls, foreign currency restrictions, and many other controls all prevented the well-to-do from spending their money-incomes as they wished. Thus anti-sumptuary controls reinforced anti-sumptuary taxation; and consumption standards were still further equalised.

But with the disappearance of shortages and the return to a free economy, this limiting influence on expenditure has largely lost its force; and the second, contrary, influence is now of much greater significance, namely the access of the rich to sources of expenditure other than taxable income.

<sup>1</sup> *ibid.*

To a far greater extent than the rest of the population, the rich have access to generous tax-free expense allowances; and they can always sell capital assets to maintain their living standards. A substantial property-owner, by realising (tax-free) a small fraction of his capital annually, permits himself a large proportionate increase in his spending at the expense of a minimal reduction in his future income. A man with £200,000 of capital, from which he derives (at an average yield of 5%) a gross income of £10,000, retained until recently only £3,587 after paying tax; but he could double his current expenditure at a cost, given the high marginal rates of surtax, of a mere £50 reduction in his future net income. And this takes no account of the possibility of capital gains, the exemption of which from tax gives a further advantage to the share-holding class. Thus figures of net taxable income are not a wholly reliable guide to levels of expenditure; and a section of the rich, notably those with City and business connections, are able partially to avoid the effects of high taxation.

But when every allowance is made, the essential fact remains – that the rich are distinctly less rich, and the poor are much less poor. The levelling process is a reality even in terms of consumption standards; and Britain has an appreciably more equal society after six years of Labour rule either than it had before the war, or than it would otherwise have had. The fact that more remains to be done should not be allowed to detract from what was actually achieved.

#### IV *Full Employment and Stability*

The last of the immediate objectives was economic stability. This, of course, and indeed the whole case for economic planning, had been envisaged in terms of solving the unemployment problem. In the event, that did not prove to be the most pressing difficulty. Britain in 1945 was caught up in a strong and prolonged inflation, and the main task facing the planners was not how to increase, but how to restrain, demand.

This does not mean that Labour policies played no part in maintaining full employment. Not only did Britain avoid the unemployment created in some continental countries by deliberate monetary restriction, but the Government's actions also helped



to avert what might have been a serious structural, as opposed to general, unemployment problem. During the inter-war period, the geographical concentration of certain particularly depressed basic industries gave rise to an exceptionally high rate of unemployment in the so-called 'Distressed Areas'; and this persisted through boom as well as through slump – in 1937, for example, their unemployment rate was still nearly double the national average.

A hard core of structural unemployment might well have persisted even after the war. These industries were, it is true, now no longer depressed, but flourishing. But they could not, alone, have provided enough employment for the whole labour force (especially for the large numbers of women seeking work); and geographical mobility was particularly low owing to the housing shortage. The experience of Italy showed that general inflation was quite compatible with structural unemployment; and if the latter was to be avoided, a substantial movement of new industry into these areas was required.

This movement in fact occurred. To some extent it did so automatically, as industrialists were driven by the extreme scarcity of labour elsewhere towards the few areas where it was comparatively plentiful. But it would certainly not have occurred on the required scale without forthright Government action. State-owned ex-munitions factories were allocated to industrialists, new factories were built by the Government for lease to private concerns, and above all the powers conferred by the system of building licences were used to steer new private factory building into these areas. In 1936, only 8 out of 551 new factories were built in the Distressed Areas. From 1945 to 1947, 50% of new industrial buildings were sited in the (somewhat larger) 'Development Areas'. As a result, the threat of serious structural unemployment never materialised.

Yet it remains true that the characteristic post-war problem was that of inflation, not unemployment. Nothing further is said, therefore, about the full employment objective, which was so completely attained, though not solely as a result of Labour policies; and the question of inflation I discuss elsewhere.<sup>1</sup> This is not, of course, to under-rate the profound significance not only

<sup>1</sup> i. Chapter XIX and, for a historical assessment of post-war inflation, my *Britain's Economic Problem*, Ch. II.

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of the fact of full employment, both for individual welfare and the balance of class power, but also of the explicit acceptance by governments of responsibility for its maintenance. This constitutes, as a moment's recollection of pre-war debates will show, a major victory for the Left, as important as any in the social revolution of the last two decades.

### III

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## IS THIS STILL CAPITALISM?

### I *The Extent of the Change*

THE changes described in the two previous chapters, and others not analysed here, amount to a considerable transformation of British society; and I suppose no liberal-minded person would deny that things were a great deal better in consequence. Affairs are conducted in a manner at once more just and more humane; and the angry clamour of past struggles is now heavily muffled. Recent years have witnessed nothing comparable to the violence of the post-1918 period, with its alternating succession of national strikes and lockouts; nor to the bitterness, a natural reaction to dole-queues, soup-kitchens and hunger-marches, which consumed the older industrial areas in the 1930s. The marked decline in political extremism is clear evidence of diminished social tensions.

It would, of course, be absurd to attribute the entire credit for the improvement to the post-war Labour Governments. Capitalism had been undergoing a slow, though painfully slow, metamorphosis since the turn of the century. Largely this was involuntary, in the sense that it was enforced by the rebellion of the non-capitalist classes against the unpleasant consequences of industrial *laissez-faire*, and by the growing power of the political and industrial Left. This was a prime reason why Marxist prophecies about the development of capitalism were never fulfilled in Britain, or indeed in any democratic country; as I wrote elsewhere, 'one of the errors the Marxists always made, on the basis

of a faulty analysis of the nature of political conflict, was absurdly to under-rate the socio-economic consequences of political democracy.<sup>1</sup>

But it was not only the anti-capitalist classes which called for change. The business classes, which, contrary to a curious pre-war socialist notion, do not indefinitely prefer to endure low profits and economic depressions rather than accept some measure of reform, were simultaneously losing their pristine capitalist faith and loyalty. And the economic reaction was reinforced by other and more subtle changes: the gradual evaporation within the bourgeoisie of the old unquestioning self-confidence, the simple conviction that unregulated capitalism must be the best of all possible systems: the steady growth of a genuine moral conscience about the miserable social and physical results of capitalism:<sup>2</sup> the political penetration of the middle classes in the 1930s, culminating in the astonishing phenomenon of the Left Book Club: and of course the psychological change, discussed in Chapter I, associated with the gradual supersession of capitalist by managerial personnel in industry. As a result, the anti-capitalist forces were attacking a citadel whose garrison was already weakened by dissension and defeatism.

Nevertheless, whatever the future potentialities of these underlying changes, the actual results were still rather small; and Britain in 1939 remained, basically, an unreconstructed capitalist society.

The war, on the other hand, was a most powerful agent of social change. A predominantly Conservative Government was compelled by military exigency to introduce many of the reforms for which the Labour Party had vainly pleaded during year after year of peace: government planning, full employment, redistributive taxation, new social services. The moral, that these measures were perfectly practicable and not merely the Utopian dreams of Left-wing visionaries, was not lost upon the electorate, which in 1945 firmly ejected the Conservatives for having neglected to do in peace what they so readily did in war.

Yet it is wrong to ascribe all that has happened simply to the

<sup>1</sup> *New Fabian Essays* (Turnstile Press, 1952), p. 35.

<sup>2</sup> Due partly to the influence of a minority of churchmen; the effect produced, for example, by the speeches and writings of Archbishop Temple should not be underrated.

effects of the war. As the previous chapter pointed out, peoples and governments always move to the Left during a war. The important question is whether they stay there afterwards. In Britain after World War I, and in many other countries after World War II, they did not, but retreated rapidly towards the pre-war norm. Wars are only permanently revolutionary if followed by Left-wing Governments which dig in, consolidate the changes, and use them as a basis for further advance.

This was the historic task of Mr. Attlee's Government. Just how successfully it was accomplished, people perhaps scarcely realise to-day. Memories are feeble; the changes are quickly taken for granted and accepted as part of the *status quo*; and it becomes impossible to recapture former moods and hopes.

It is therefore instructive to compare the achievement with pre-war expectations. The most relevant comparison is with the Labour Party's 'Short-Term Programme' of 1937. This was the most detailed and concrete programme of action to which the Party had ever committed itself. It was described as a list of urgent measures 'of Socialism and Social Amelioration, which a Labour Government would carry out during a full term of office when returned to power by the electors'.

Its salient features were as follows: (1) Finance: nationalisation of the Bank of England; control over new investment; redistribution of wealth by taxation. (2) Industry and Agriculture: powers of compulsory acquisition of land by public authorities; nationalisation of railways and other unspecified 'transport services'; nationalisation of coal, gas, and electricity. (3) Social Benefits: holidays with pay; school-leaving age to be raised to 16; improved pensions, workmen's compensation, and health services. (4) Distressed Areas: control over the location of industry.

It must not be thought that this programme, emanating as it did from the much-abused headquarters at Transport House, was an excessively timid creation of cautious politicians, and unrepresentative of general opinion on the Left. On the contrary, it was closely in tune with the thought of well-known socialists outside Parliament, to whatever wing of the Party they belonged. Professor Cole, Mr. Douglas Jay, and E. F. M. Durbin, in their works on socialism, all adumbrated very similar programmes as the most that could be expected of a Labour Government during

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its first term of office.<sup>1</sup> Indeed Mr. Strachey, at that time considered rather far to the Left, produced a 'Popular Front' programme for the Left Book Club which was incomparably more modest.<sup>2</sup> This was based, it is true, on the assumption that the Labour Party, in order to win a majority, would need to ally itself with non-socialists. Nevertheless, it was described as a set of measures which 'would modify the nature of capitalism to a serious extent', and 'must lead to Socialism' in the end. It consisted of six main items: (1) the promotion of public or mixed investment, (2) the lowering of the rate of interest to encourage private investment, (3) redistributive taxation, (4) higher social services, (5) a public banking system, (6) government control over the balance of payments.

It is evident from these programmes that the performance signally exceeded expectations. In each of the spheres mentioned, action went a good deal beyond what had been envisaged. Nationalisation, for example, embraced civil aviation, steel, road transport, and Cable and Wireless in addition to the industries listed in the official programme. Social service policy extended to family allowances, a comprehensive National Health Service, and a complete new structure, instead of minor improvements, of National Insurance. And in the fields of redistributive taxation, the level of employment, the Distressed Areas problem, the working-class standard of living, and government control over the economy, much more was achieved than most pre-war writers ever anticipated.<sup>3</sup>

None of this means that everything went right, or that more might not have been done, or that a great deal does not remain to be done. And of course the war helped to smooth the path of reform. It simply means, what is often forgotten to-day, that greater social changes had occurred by the end of the first majority Labour Government than the most sanguine amongst pre-war Leftists had expected.

<sup>1</sup> Douglas Jay, *The Socialist Case*; G. D. H. Cole, *A Plan for Democratic Britain* (Labour Book Service, 1939); E. F. M. Durbin, *The Politics of Democratic Socialism*.

<sup>2</sup> *Programme for Progress* (Gollancz, 1940). But it was not as modest as Sir Richard Acland's programme for a Popular Front Government, which was to consist of only four domestic promises: (1) to nationalise coal and the Bank of England, (2) to abolish the household means test, (3) to put an end to the 'site-value racket', and (4) to make milk cheap. (*Only One Battle*, Gollancz, 1937, p. 155.)

<sup>3</sup> Durbin, indeed, thought that hardly any social service improvements would be possible during the first period of office, and courageously called for a standstill on the standard-of-living while control over the economy was being consolidated.

II *The Danger of Conservative Reaction*

But are these changes very precarious? Is the whole new structure vulnerable simply to a few years of Conservative reaction? There would be no point in getting very excited if everything was now to be undone, with Labour watching helplessly from the opposition benches.

Many such fears were expressed in 1951. I confess I never shared them. Of course it was always obvious that the Conservatives would do reactionary things, and peel off several layers of what had been achieved: that they would alter the priorities, withdraw the frontiers of social control and ownership, and above all redistribute real income from poor to rich – by changes in taxation, reductions in subsidies, and the removal of controls. All these things have in fact been done; and more will be done in future. But it was never likely that the Conservatives would destroy the hard core of the achievement; and even if we suffer several more years of Conservative rule, I should still expect 75% of the reforms to remain intact.

This is partly because some of the changes cannot be undone by any practicable means whatever, being due not to Acts of Parliament, but to fundamental changes in the social framework. Thus the transfer of power described in Chapter I could not be substantially reversed by any Government, for its causes lie much less in legislation, than in changes in social psychology, the moral consensus of opinion, technology, and the internal structure of industry.

Even if this were not the case, a wholesale counter-revolution would still be rather unlikely. It is not, for one thing, in the nature of the British Conservative Party, which for all its clamorous fringe of backwoodsmen usually entrusts its leadership to cautious, realistic Peelites.<sup>1</sup> Indeed, it lacks the essential attribute of a counter-revolutionary party – a faith, a dogma, even a theory. A passionate desire to restore the past must rest on a deep attachment – moral, ideological, or theoretical – to the virtues of that past. And this the British Conservative, typically pragmatic and empirical, seldom has. His attachment is to the *status quo*, what

<sup>1</sup> For an excellent discussion of this whole question, cf. Roy Jenkins, *Pursuit of Progress* (Heinemann, 1953).

ever the *status quo* may be; and his function is less to reinstate the past than to preserve the present.

This is particularly true to-day, since the immediate past was an era characterised by chronic depression, violent instability, and a singularly unheroic foreign policy. Nostalgically as Conservatives may think back to particular features of that era, such as the low taxation, they could hardly, by any feat of self-deception, beget a deep doctrinal or emotional devotion to pre-war society as a whole, or convince themselves that the 1930s were a glorious age, any defection from which is immoral as well as unwise.

The mood of the electorate provides, in any event, a sufficient guarantee against a sweeping counter-revolution. The voters, now convinced that full employment, generous welfare services and social stability can quite well be preserved, will certainly not relinquish them. Any Government which tampered seriously with the basic structure of the full-employment Welfare State would meet with a sharp reverse at the polls; and this knowledge acts as rather a strong inducement to politicians not to tamper. It is this which explains the otherwise curious phenomenon that the Conservatives now fight elections largely on policies which twenty years ago were associated with the Left, and repudiated by the Right: on increases in the social services, the over-riding claims of full employment, the prosperity of the wage-earners, and even, occasionally, the success of the nationalised industries! The fact that the political battle to-day is waged mainly on ground chosen by the Left is remarkable evidence of the change in national ideology.

It is significant, in particular, that the feature of post-war society which, for electoral reasons, is the least vulnerable to political reaction, namely full employment, is also one of the most decisive for the underlying balance of power. As an earlier chapter showed, it constitutes a basic cause of the shift of economic power away from the business class; and so long as it is maintained, then whoever governs at Westminster, the organised workers will remain the effective power in industry.

The Conservatives, then, besides acting as a barrier to further advance, will continue to make dents in the new social and economic structure; in particular, they will favour the better-off



classes as much as they dare. But they will certainly not destroy the essential fabric.

### III *Is Britain a Capitalist Society?*

Is there any sense in which the new structure can still be described as capitalist? This, obviously enough, is a matter of definition. But it is not the less important for that. Words such as capitalism, socialism, democracy, and communism have a strong emotional and propaganda content. It is therefore a matter of some importance whether a society (or a person!) is or is not labelled communist, or capitalist, or socialist, or democratic, since the label itself will influence people's attitudes towards the society (or person) in question. Verbal precision is therefore not a merely trivial or pedantic matter.

The word capitalism might reasonably be taken to mean one of two things. First, it might be used in a historical sense to describe the society which developed in nineteenth-century Britain after the Industrial Revolution, and which in its main outlines, although of course with modifications, persisted into the 1930s. This was in fact the sense in which the word first came into common use, having been chosen because the most conspicuous difference between industrial society, and medieval or feudal society, was the large-scale creation of industrial capital. Hence the word came to be applied to the whole of the society which grew up round, or on the basis of, this technological revolution.

On this historical definition, it is manifestly inaccurate to call contemporary Britain a capitalist society.<sup>1</sup> What, after all, were the salient features of that society, which fundamentally determined its social character?

(1) The autonomy of economic life, the decentralisation of economic decisions down to the individual unit of production, and the subordination of these decisions to (mainly) market forces; that is, what is crudely called *laissez-faire*. To-day, by contrast, as was shown in Chapter I, the state and the political authority have removed a wide, and strategically decisive, segment

<sup>1</sup> That is, unless we adhere to a literal interpretation in terms of large aggregations of industrial capital, in which case of course Britain is still a capitalist country – but so is Soviet Russia.

of economic decisions out of the sphere of purely market influences, and made them subject to deliberate political control. Through fiscal policy, and a variety of physical, legislative, and financial controls, the state now consciously regulates (or seeks to regulate) the level of employment, the distribution of income, the rate of accumulation, and the balance of payments; and its actions heavily influence the size of industries, the pattern of output, and the direction of investment-decisions. The passive state has given way to the active, or at least the ultimately responsible, state; the political authority has emerged as the final arbiter of economic life; the brief, and historically exceptional, era of unfettered market relations is over.

(2) At the level of the unit of production, decisions were effectively controlled by a class of private owner-managers, or capitalists, who (given the background of *laissez-faire*) largely monopolised economic power in the sense defined in Chapter I. This situation no longer exists even in the unit of production. In the basic industries, nationalisation has wholly deprived the capitalist class of its power of decision. But it has been similarly deprived in much of the private sector. The growth of the managerial joint-stock corporation has transferred the function of decision-making to a largely non-owning class of salaried executives, who suffer singularly little interference from the nominal owners. Even this new business class finds its freedom of action limited to an extent which its capitalist predecessors never did—partly by the growth in the role of government, but mainly by the growth in the power of labour, stemming generally from the rise in Trade Union strength and specifically from the altered conditions in the labour market. Thus the classical capitalist class of entrepreneurs has largely disappeared, at least from large-scale industry; while its successor, the business executive class, can certainly not be said to monopolise economic power even in the individual firm.

(3) Industrial capital was privately owned, as of course is implied in the previous point. This is still true of the greater part of industry. But its significance for social and economic relations has wholly altered for the two reasons just given, and with the results described below.

(4) The distribution of wealth was characteristically unequal for two reasons. First, the concentration of economic power in

## THE TRANSFORMATION OF CAPITALISM

the hands of one class meant that this class steered the distribution of income, so far as it could, in its own favour. Secondly, since this class was a capitalist one, at once the main source of new capital and the main agent of production decisions, strict economic considerations, quite apart from the balance of class power, necessitated an exceptionally large return to industrial capital-ownership relative to other sources of income.

To-day, as the previous chapter showed, the distribution of income has become significantly more equal; and the change has been almost entirely at the expense of property-incomes. Even more significant, the income accruing to the owners of industrial capital has dwindled to a negligible share of the total. Dividends net of tax are now only some 3% of all personal incomes after tax;<sup>1</sup> and even making a generous allowance for realised capital gains, this is a total reward to the 'capitalist' class which makes it startlingly clear that the economy is no longer basically capitalist-motivated, and that private share-capital is no longer, as it was under capitalism, the foundation and mainspring of the whole system. The demise of capitalism could almost be inferred from this one figure alone.

(5) Capitalism was historically associated with an explicit, assertive, and, in the perspective of history, unusual ideology. Its essential features were, first, the veneration of individualism and competition: secondly, an insistence on the absolute and unconditional rights of private property: thirdly, an intellectual belief that the unfettered exercise of private rights must, by 'the invisible hand' of economic competition, maximise the welfare of the community.

None of these beliefs could be said to form part of the ruling ideology in Britain to-day. The non-capitalist classes have always opposed an ideal of co-operation, social action, and collective responsibility to that of individualism; and as their power grew, so this ideal increasingly prevailed. No one would argue that in the contemporary Welfare State the dominant ideology was one of self-help or aggressive individualism.<sup>2</sup> And even within the business class itself, as Chapter I has shown, the worship of

<sup>1</sup> Gross dividends on ordinary shares in 1954 were £600 million, total personal incomes before tax over £14,000 million. Dividends, owing to the unequal distribution of shareholding, of course pay a much higher-than-average rate of tax.

<sup>2</sup> *v.* Chapter V, Section IV, for a fuller discussion of the decline of the competitive ideal.

individualism has given way to a positive cult of team-work and group action.

Nor does anyone now much believe in the over-riding rights of private property.<sup>1</sup> Even Conservatives to-day seldom dress their claims in these terms; instead, they borrow moral standards and criteria that used to belong to the Left. It is significant that the opposition to nationalisation was usually based less on grounds of private property-rights, than on arguments about efficiency. And in so far as any ideology of property-rights persists, it is not within the new class of business managers, who find their sanction rather in performance and economic growth.

As for the dogma of the 'invisible hand', and the belief that private gain must always lead to the public good, these failed entirely to survive the Great Depression; and even Conservatives and businessmen now subscribe to the doctrine of collective government responsibility for the state of the economy.

(6) Lastly,<sup>2</sup> capitalism was characterised, largely as a consequence of these other features, by an intense class antagonism. Indeed this was inevitable in a society dominated by an aggressive economic ruling-class, whose power was yet increasingly challenged by an emerging class – the industrial workers. From the Peterloo massacre, through Chartism and the violence of pre-1914 syndicalism, to the bitter coal strikes of the '20s and '30s, the atmosphere was one of constant industrial tension, often verging on class war.

To-day this heavy, lowering atmosphere has largely lifted. Of course we still have strikes, hostilities, and periodic outbursts of emotion – perhaps even to a surprising extent.<sup>3</sup> But they no longer take the same prolonged, dogged, and embittered form. The disputes are conducted within more moderate limits; compromises

<sup>1</sup> v. Chapter XVII, Section I.

<sup>2</sup> I am not sure what view should be taken of another feature of capitalism, at least according to Marx and Engels. 'Our bourgeois, not content with having the wives and daughters of the proletarians at their disposal, not to speak of common prostitutes, take the greatest pleasure in seducing each other's wives. Bourgeois marriage is in reality a system of wives in common. . . . It is self-evident that the abolition of the present system of production must bring with it the abolition of the community of women springing from that system, i.e. of prostitution both public and private.' (*The Communist Manifesto*, 1848.) This seems rather a harsh judgment on mid-Victorian morality. But I am not sure what it suggests for the argument of this chapter.

<sup>3</sup> v. Chapter IX.

are more quickly reached; and the militant language of class-war, the terminology of revolt and counter-revolt, is itself passing out of usage.

The more pacific character of the pursuit of power is reflected in the altered social and political attitudes of the different classes. Generally, the temper of political controversy is now much calmer. One could never to-day use descriptive language which seemed quite apt even twenty years ago. 'The forces of capitalism', wrote Laski, 'are highly integrated, [and] have the self-confidence which comes from the absence, so far, of any serious challenge to their authority. . . . All the main instruments of power and property are in their hands. . . . If democracy stands in the way, so much the worse for democracy. . . . If democracy will not stand much longer the poverty and unemployment . . . then they are prepared for the destruction of democracy.'<sup>1</sup> To-day this sounds like an echo from another world.

The attitude of the workers, both leaders and rank-and-file, has similarly lost its violent character. Some militants still occasionally speak in the accents of the class-war; but their social attitudes often belie their words. It is characteristic of a genuine class-war period, when the masses are rebelling against real oppression and exploitation, that the leaders identify themselves with their followers, not only intellectually and emotionally, but in their private and social lives.<sup>2</sup> They embrace a severe austerity, decline to mix socially with the governing class, and dedicate their entire lives, their hours of leisure as well as of work, to the prosecution of the struggle. The more amiable and sociable attitude of contemporary leaders, even on the 'militant' wing of the Left, is a significant sign of the change of mood – and, of course, a well-justified symbol of greater strength and self-confidence. And so far as the rank-and-file are concerned, their attitude is described in a prophetic remark of Engels: 'the masses have got damned lethargic after such long prosperity.'<sup>3</sup> But unlike him, not everybody would consider this a bad thing.

Thus almost all the basic, characteristic features of traditional

<sup>1</sup> *Liberty in the Modern State*, pp. 25 seq.

<sup>2</sup> That is, the genuine and trusted leaders, as opposed to the future deserters, like MacDonald, who are gradually seduced by the 'aristocratic embrace'.

<sup>3</sup> *The Correspondence of Marx and Engels* (Lawrence and Wishart, 1934), p. 86.

pre-1914 capitalism have been either greatly modified, or completely transformed. Does it then make sense to go on speaking as though contemporary Britain were still similar in kind to the society historically designated by the word capitalism? Surely not. And it is significant that our society is now different in kind from classical capitalism, not only in the socio-economic respects considered in this chapter, but in almost every other respect that one can think of – family relationships, population trends, sexual morality, personal religion, the position of women, literary and artistic standards, and so on. It would be curious if these profound changes in every part of what Marx called the ‘super-structure’ reflected no fundamental change in the underlying social and economic forces.

It therefore seems misleading to continue talking about ‘capitalism’ in Britain, as though the lines of battle were essentially the same as a generation ago. But the difficulty is that people feel happier if things are labelled; and they will not discard an old label unless a satisfactory new one wins acceptance. And no new terminology has come into universal vogue. The colourless ‘Mixed Economy’ and the rhetorical ‘Welfare State’ have gained most currency; but neither is a satisfactory descriptive label for contemporary British society.

I once rashly joined in the search for a suitable name, and in *New Fabian Essays* called the new society ‘statism’. But it was, on reflection, a bad choice. It has come to be widely used, especially in the U.S.A., but as a synonym for ‘collectivism’, which was not the connotation intended. Having had no better idea since then, I have no intention of trying again. Nevertheless, I believe that our present society is sufficiently defined, and distinct from classical capitalism, to require a different name. It is, of course, always a matter of extreme doubt, indeed simply of personal judgment, when one can properly say of any evolving society, which avoids a complete upheaval, that a quantitative change has become a qualitative one, a change in degree a change in kind. Thus most historians would agree that it took six centuries of continuous evolution for full-blooded feudalism to develop into full-blooded capitalism; but they would disagree about the date at which the feudal features ceased to be, and the capitalist features became, the predominant ones which gave the society its characteristic tone.

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Similarly people would disagree to-day (although the pace of change has been a great deal faster); and it can only be a personal judgment that capitalist features and attitudes no longer predominate, and that a change in degree has become a change in kind. But there is at least some powerful evidence to support the view.

### IV *The Growing Irrelevance of the Ownership of the Means of Production*

But it might be objected that the word capitalism has often been used not in the meaning so far assumed, namely as a definition or description of a whole society: but simply to describe one feature of that society which was thought, rightly or wrongly, to be the basic determinant of all other features, namely, the private ownership of large-scale instruments of production. On this definition, any industrial society in which private ownership predominated, whatever its other features, would have to be described as capitalist; and contemporary Britain would be described simply as 75% capitalist and 25% socialist (assuming for the moment that socialism is defined equally narrowly in the converse sense).

Now it is a matter for argument which is the 'proper' definition of capitalism: that is, whether the word has normally been used in this narrow sense, or in the wider sense suggested above. But if the narrower definition is insisted on, we cannot of course prove that it is 'wrong'; we can only ask whether it retains any significance or interest if the assumption behind it turns out to be false; that is, if it appears that ownership is not the fundamental conditioning factor which determines the character of the society.

It seems clear that this assumption is not now correct, whether or not it was in the mid-nineteenth century. Let us return to Marx, from whom many socialists still derive their image of capitalism, and who was mainly responsible for this definition of the whole in terms of one of its parts.

The relations and modes of production which formed the basis of the Marxist analysis were twofold. First, the *technological* fact of large accumulations of industrial capital, leading inevitably to

the factory system: 'the hand-mill creates feudal, the steam-mill capitalist, society.'

Secondly, the *social* fact that this capital, that is, the instruments of production, was 'alienated' from the workers who actually produced, and controlled by a separate class of owners. Thus the owners of labour-power and the owners of capital confront each other as two distinct and opposite economic classes, one of which must employ the other before production can begin. 'The separation of labour from its product was therefore the real foundation in fact, and the starting point, of capitalist production.' And again: 'Capitalist production therefore of itself reproduces the separation between labour power and the means of labour.'<sup>1</sup>

This separation, the fact that capitalist and labourer confront each other in the market as buyer and seller, leads inescapably to the basic features (in Marx's view) of capitalism: the economic fact of the 'exploitation' of the worker (that is, the appropriation by the employer of surplus value), and the social fact of the relation between capitalist and wage-labourer. From these two facts in turn spring all the other typical features of capitalism – the political domination of the owners, the class-struggles, the pauperisation of the masses, inequality, and the rest.

Now the whole argument hinges on the separation of the worker from the means of production, the alienation of control, and the confrontation of buyers and sellers of labour. And indeed Marx was correct, as sociologists to-day well realise, to isolate these factors as the determining influence on many social and economic relations. But the relevant question is: has this separation anything whatever to do with the actual *ownership* of the means of production, or does it arise inevitably from the underlying technological fact of complex and large-scale factory organisation? Surely the latter.

The only society in which it does not occur, and in which the worker alone, not being confronted by an employer, determines both the conditions on which his labour-power is used and the use to which the means of production are put, is a peasant or craft society, or at least a society of small-scale units. But as soon as society becomes 'capitalist' in the literal sense of being characterised by large agglomerations of capital, the separation is

<sup>1</sup> *Capital*, Vol. II, pp. 583, 591.



inevitable, whoever owns this capital. There must, merely on account of the huge numbers employed and the intricate subdivision of labour, be some central hiring organisation which decides who, and how many, and on what terms, to employ, and what use is to be made of their labour-power. Similarly there must, again owing to sheer size and complexity, be some central nucleus of managerial control, and chain of command, which takes the production and distribution decisions in a more or less centralised manner and by methods other than periodic mass-meetings of workers.

Thus irrespective of who 'owns' the means of production in the legal sense, both 'confrontation' and 'alienation' are inevitable; and someone other than the mass of workers must ultimately take the production decisions. The basic factor is not ownership, but large scale; and a collectivist economy, with no private owners, is no less characterised by the alienation of control than a capitalist economy. Indeed, even in the latter, ownership has less and less relevance to the question of control. The same trend towards large scale and complexity which alienates the workers from the means of production also alienates the owners. Capital requirements are so great that sole ownership gives way to fragmented shareholding; and many large companies to-day have more shareholders than workers. Naturally the mass of shareholders is even less able than the mass of workers to control and co-ordinate the highly technical, managerial organisation which alone can take the decisions. Thus ownership becomes of less and less importance for two separate reasons, both deriving fundamentally from the growth of scale: first, because the alienation of the workers is an inevitable fact whether ownership is 'capitalist' or collectivist, and secondly because even 'capitalist' ownership is increasingly divorced from effective control.

Of course the pattern of ownership may still have some influence on what economic decisions are taken - though not necessarily in any particular direction, as is made clear below. But it is wholly irrelevant to the underlying fact of the alienation of the workers from the means of production. In Soviet Russia, just as much as in the United States, the employer and the labourer 'confront each other as buyer and seller'; the control centre is separated from the workers; and the possibility of exploitation, and of all the other features of 'capitalism', is present.

## IS THIS STILL CAPITALISM?

Since private ownership has little to do with the loss of control by the workers, and indeed is not itself the main source of control even where it still survives, it seems unlikely that the pattern of ownership will uniquely determine anything. Let us test this view against each of those basic characteristics of a society which have, historically, been of most concern to socialists.

First, political freedom and parliamentary democracy. Recent history demonstrates that these may (though of course they need not) exist in a largely privately-owned economy, and not in a collectivist one. Presumably no one would deny that they were present in Britain, and absent in Soviet Russia.

Secondly, class stratification, whether in the 'economic power' sense discussed in Chapter I or the wider sense discussed in Chapter VIII, may be either more or less marked in a collectivist than in a privately-owned economy. The once-popular equation of state ownership and the classless society rested either on a tautological proof (that is, class was defined in terms solely of the presence or absence of private ownership, from which it followed that if there were no private ownership, there could be no classes), or on the assumption that when the state expropriated industry, no one class would control the state. But there was no logical reason why this should be true. Most people would judge that in Russia it is not, and that a distinct ruling-class exists, its power resting on control of the state machine. And so far as non-collectivist societies are concerned, the view that the distribution of class power depends on the pattern of ownership is disproved by the arguments set out in Chapter I. Indeed, if we compare the two extremes (in terms of ownership) of Russia and the U.S.A., it becomes obvious that both the distribution of economic power and the degree of social stratification depend on innumerable influences besides the ownership of the means of production; and a comparison between Britain in 1956 and in 1856 would of course show the same result.<sup>1</sup>

Thirdly, the degree of 'exploitation' – that is, the extent to which the workers, instead of being paid and consuming the whole value of what they produce, surrender some part in the form of 'surplus value' – again does not depend uniquely on ownership. It is determined primarily by the fiscal policy of the government, and by managerial decisions about the disposal

<sup>1</sup> v. Chapter VIII for a fuller discussion of the question of class.

of profits.<sup>1</sup> A collectivist economy can extract as much surplus value as it chooses by means of heavy taxation and the ploughing-back of profits by state enterprises; while of course the need for surplus value, as a condition of capital accumulation and economic growth, is just as great in a collectivist as in a privately-owned economy. Indeed, if Soviet apologists are to be believed, and the rate of capital investment in Russia is what they say, then the world's first collectivist economy has extracted surplus value from its population on a scale never exceeded by any capitalist country in history.

Fourthly, the distribution of personal income is not uniquely determined by the pattern of ownership. It depends on the share of wages in the national income, the taxation policy of the government, and the behaviour of relative prices; and these in turn depend on many different factors such as the level of employment, the degree of competition, the strength of the Trade Unions, and above all the political complexion of the government. It is quite possible for income-distribution to undergo large changes without a major change in ownership, as it has done in Britain in the manner described in the previous chapter: for incomes to be more unequally distributed in a collectivist than in a privately-owned economy, as they are in Soviet Russia than in Britain or Scandinavia: and for personal incomes from property to be squeezed, even in a 'capitalist' country, to an almost negligible proportion of the total.

The same is true of the distribution of capital. This is determined by the structure of inheritance taxes, and the possibilities of accumulation during lifetime. The former is of course under the control of the political authority. But it is sometimes said that large accumulations during lifetime are inevitable in a privately-owned economy, since a sufficient supply of capital depends on high dividends and rapidly rising capital values. But this, I believe, is greatly to exaggerate the importance of the shareholder as a source of capital in the modern large-corporation economy. The matter is argued in detail in later chapters;<sup>2</sup> but the experience on the one hand of Germany, where the shareholder is of singularly little importance and the capital market quite different from our own, and on the other hand of Sweden, where

<sup>1</sup> This point is discussed in more detail in Chapter XX, Section I.

<sup>2</sup> c. Chapters XVII and XX.

## IS THIS STILL CAPITALISM?

an exceptionally high level of investment is accompanied by only a modest rise in capital values, suggests that large private accumulations can be prevented even under a system of private ownership.

Fifthly, the degree of government planning does not depend exclusively on ownership. Post-war experience has shown that private industry can be subjected to a close degree of government control, while nationalised industries may behave in a rather independent fashion, and prove not altogether easy to plan.<sup>1</sup> Generally, there is no practical or theoretical reason why a collectivist economy should not operate solely under the influence of the price-mechanism, without interference by the government, nor why a privately-owned economy should not be subject, as the Nazi economy was, to state control of all major economic decisions.

Lastly, the status of the worker may be either better or worse in a collectivist than in a privately-owned economy. So far as real income is concerned, this depends partly on the share of wages in the national income, but in the long run mainly on the rate of growth of the economy; and there is no definite evidence that this must be higher in a collectivist society. So far as status at work is concerned, the Marxist criticism of 'proletarianisation', in the direct sense that most employees work for wages in mass factory units, is of course as easily levelled at Soviet Russia as at the United States.<sup>2</sup> But what really matters is the degree to which management is autocratic or democratic, the extent of joint consultation and participation, and the freedom of the worker to strike or leave his job. In all these respects the Soviet worker is more proletarianised than the British worker. He has no free Trade Unions to protect him, no right to strike, no freedom to change his job, no elaborate system of arbitration, and no political party to represent his interests in a democratic parliament. Deprived of individual rights and subject to autocratic management, he may well envy the British worker his free Trade Unions and looser discipline; the victim of periodic compulsory speed-ups, he may similarly envy the American worker his shorter hours and greater freedom. In this, as in the

<sup>1</sup> v. Chapter XXIII, Section II, for details.

<sup>2</sup> This point has been made by M. de Jouvenel in the course of a comparison of the Soviet and non-Soviet economies. (Paper presented to the Milan Conference of the Congress of Cultural Freedom, 1955.)

## THE TRANSFORMATION OF CAPITALISM

other spheres already mentioned, the ownership of the means of production decides much less than the character of the political system.

If we turn from society as a whole to the individual unit of production, we still find that the question of ownership is of less importance than other factors. The experience of nationalisation has shown that the public and private corporation face very similar problems, which indeed are common to all large-scale industrial organisations. Thus not only the Coal Board and I.C.I., but a Soviet State Trust, General Motors, and Volkswagen, all have much in common in respect of the economic and technical decisions which they have to take – how to determine wages, settle disputes, achieve a sense of participation, decentralise decisions, accumulate a sufficient surplus, and satisfy a critical public.

Nor do they *necessarily* differ (in the sense that their decisions are uniquely 'given' by their different patterns of ownership) in the approach which they bring to these problems. All are managerially controlled, none exist primarily to enrich the owners. And not only their economic motives, but also their 'social character' is often similar. This is because they are all controlled by men enjoying similar relations at work. Whether in a public or private corporation, the executives are paid by salary. They enjoy security of tenure, steady incremental increases in income, a more or less regularised system of promotion, and pension rights. They are appointed, and neither elected nor self-chosen; they work within a hierarchically-organised structure, and according to a systematic set of rules.<sup>1</sup> It is hardly surprising that they show a temperamental affinity – more, indeed, than either would have with the classical capitalist entrepreneur. This may be a good or bad thing. But it is a fact, and indeed one of the reasons why large-scale nationalisation has produced fewer changes than many socialists expected.

Is it then not clear that the ownership of the means of production has ceased to be the key factor which imparts to a society its essential character? Either collectivism or private ownership is consistent with widely varying degrees of liberty, democracy, equality, exploitation, class-feeling, planning, workers' control, and economic prosperity. And it is surely the degree to which

<sup>1</sup> v. Robert K. Merton, *Social Theory and Social Structure* (Glencoe, 1949), Ch. V.

these attributes are present or absent which makes people differentiate between societies.

This does not of course mean that ownership can have no influence whatever on the character of a society, or on what decisions are taken in these various spheres. It leaves open the question of whether nationalisation is a good or bad thing. It might be that private ownership was either a help or a hindrance to the attainment of certain goals, such as income-equality, or the diffusion of power, or a higher status for the worker. This question is left for discussion in two later chapters.<sup>1</sup> What it does mean is that the pattern of ownership, although it may influence, is unlikely to *determine* the extent to which such goals are attained, and the presence or absence of the basic attributes mentioned above. And even as an influence it is now much less important than other factors, such as the managerial structure of industry, the level of employment, the strength of the Trade Unions, the general social climate, and above all the character of the political authority.

It therefore seems rather pointless now to define and distinguish societies according to this one criterion. The resulting classification would be a very misleading guide to the true character of the societies; nor indeed would it show any correlation with what a socialist would consider 'good' or 'bad'. If we persist in defining capitalism in terms of private ownership, and socialism in terms of collectivism: and if we are socialist anti-capitalists either because we ourselves would prefer, or because we think that the mass of workers would prefer, or because we should regard it as more just or moral, to live under socialism than capitalism: then we must say that we should prefer, or that the mass of workers would prefer, or that we should regard it as more just and moral, to live in Soviet Russia than in Britain, or Sweden, or even the United States. Which only shows how completely these definitions have cut adrift from what people had in mind when they originally used the words.

I conclude that the definition of capitalism in terms of ownership, whether or not it was helpful 100 years ago, has wholly lost its significance and interest now that ownership is no longer the clue to the total picture of social relationships: and that it would be more significant to define societies in terms of equality, or class

<sup>1</sup> *v.*, Chapters XXII and XXIII.

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relationships, or their political systems. In any event, I personally think, as I argued earlier, that the proper definition of the word capitalism is a society with the essential social, economic, and ideological characteristics of Great Britain from the 1830s to the 1930s; and this, assuredly, the Britain of 1956 is not. And so, to the question 'Is this still Capitalism?', I would answer 'No'.

PART TWO

THE AIMS OF SOCIALISM





## IV

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### THE TRADITIONS OF BRITISH SOCIALISM

#### I *The Appeal to the Past*

IF this is not still capitalism, then what is socialism now about? The Labour Party has not yet given a clear answer to this question; indeed no one who has observed the Party since 1951, furiously searching for its lost soul, can have failed to sense a mood of deep bewilderment. This mood is in no way discreditable. In the light of the legislative accomplishment, there is no help to be got from searching the files of Transport House; while in view of the change in the balance of economic power, most pre-war analyses have lost their relevance, and the much-thumbed guidebooks of the past must now be thrown away. It is small wonder, in these circumstances, that the approach to a new policy should be fumbling and hesitant, and that there should be a note of irritation both about the demands for 'new thinking', and then about the responses to it once it comes.

In this situation the simplest refuge, and the most common cry, is to urge that we 'go back to socialist first principles'. This sounds both easy and attractive. But unfortunately the phrase 'first principles' is ambiguous. Does it refer to basic ethical or emotional aspirations? But these may have been the product of a situation which has passed away. Or to particular policy objectives? But these may have been achieved, and so have become irrelevant. Or to the ideological or theoretical justification for these objectives? But this may have been outmoded by changes in economic or sociological thought. Or to the means by which these objectives were to be fulfilled? But there is no reason why

means that are suitable in one generation should be equally suitable in the next.

That one can easily browse amongst 'socialist first principles' without any new policies, or fresh contemporary justification for old ones, emerging at the end, was clearly shown in the most widely-read socialist book of this period.<sup>1</sup> This negative result is bound to follow unless it is made clear to what category of statement the phrase 'first principles' is held to apply. To take a particular case, which of the following is to be held sacred as a first principle: nationalisation of the means of production (the means to a particular objective), the appropriation by the state of property incomes (the objective), the labour theory of value (by which the objective was often justified), or the underlying aspiration towards equality? Very different answers for future policy would emerge according to which of these historically inter-related elements was picked out as the essential truth to be preserved.

There is the further difficulty that no single constant and consistent body of socialist doctrine exists. R. H. Tawney has written that 'like other summary designations of complex political forces, Socialism is a word the connotation of which varies, not only from generation to generation, but from decade to decade'. And not only has the doctrine varied through time, but different versions of it, as will be seen, are mutually inconsistent.

In the case of the British Labour Party, matters are additionally complicated by the fact that it was not founded on any body of doctrine at all, and has always preserved a marked anti-doctrinal and anti-theoretical bias. The foremost historian of the Party, writing of its formative years, speaks of 'a Socialism almost without doctrines . . . so undefined in its doctrinal basis as to make recruits readily among persons of quite different types'.<sup>2</sup> This may or may not have been a good thing;<sup>3</sup> but it was a fact, and

<sup>1</sup> Aneurin Bevan, *In Place of Fear* (Heinemann, 1952).

<sup>2</sup> G. D. H. Cole, *A Short History of the British Working-Class Movement, 1789-1937* (Allen and Unwin, 1937), Vol. III, pp. 22, 26.

<sup>3</sup> The British workers had already been rapped sharply over the knuckles by Engels for their inattention to doctrine. Writing in the 1870s, he congratulated the German workers on the fact that they 'belong to the most theoretical nation in the world, and have retained that theoretical sense which has been almost completely lost by the so-called educated classes in Germany'. He contrasts this happy state with 'the indifference to theory which is one of the chief reasons of the slow progress of the English working-class movement'. But in the end the intuitions of Keir Hardie proved a more reliable foundation than the theories of Lassalle and Kautsky.

## THE TRADITIONS OF BRITISH SOCIALISM

one which makes it particularly hard to decide what are the correct dogmas to which we are now supposed to go back for inspiration.

But since the appeal to tradition is so appealing a catch-phrase, and lest, for all these difficulties, it should throw up the right answers, a brief résumé of traditional socialist doctrine is given in this chapter. I say nothing of the long pre-capitalist tradition of 'communism', stretching all the way from the early Christians to the Levellers, since modern socialism is concerned with an industrial society, and the doctrinal formulations of purely agrarian societies can have little relevance. But the following doctrines, listed broadly in chronological order, have been the most influential over the last 150 years.<sup>1</sup>

### II *A Summary of Socialist Doctrines*

(1) *The philosophy of natural law.* This had its immediate inspiration in Locke, though of course it can be traced much earlier in philosophical history. But it was Locke (suitably interpreted) whose ideas provided a theoretical basis both for the English radicals who rejoiced at the French Revolution, and the early anti-capitalist writers of the Industrial Revolution. He was called in aid to prove that land was originally held in common, and that labour was the only true title to property. These two principles were used to support the revolutionary thesis that common possession, because natural, was therefore also just, and that private property must be abolished: and that all deductions from the produce of labour in the shape of rent, interest or profit were indefensible, and should be reclaimed by the community.

(2) *Owenism.* Robert Owen, believing that character and states of mind depended on economic environment, maintained that so long as the economic system was competitive, it would breed neither good character nor general contentment. Competition must therefore be replaced by a co-operative organisation of industry, with property held in common, and all labour treated

<sup>1</sup> For histories of this subject, v. M. Beer, *A History of British Socialism* (Allen and Unwin, 1940), Alexander Gray, *The Socialist Tradition* (Longmans, 1946), G. D. H. Cole, *op. cit.*, and (an anthology of socialist writing) Henry Pelling, *The Challenge of Socialism* (Black, 1954).

as of equal status. This transition does not require class-war, industrial strikes, or even political action. It requires only that the upper classes should be converted, as they must be as soon as they perceive the reality of the situation, to the need for a new social order, which can then be built by a cumulative series of local co-operative experiments, with all classes gladly participating.

(3) *The Labour Theory of Value*. Derived from Ricardo, this was forged into a weapon of socialist propaganda by the English pre-Marxist socialists (Hodgskin, Bray, etc.), and became the predominant intellectual inspiration of the working-class anti-capitalist movement, and in particular of Chartism. Labour is the source of all exchange-value, yet receives only subsistence-wages. It therefore derives no benefit from the continuous rise in production, wages being held down by what Lassalle later called 'the iron law of wages', and the whole increase in wealth accruing to the capitalist and landlord in profit or rent. There is consequently an irreconcilable conflict between capital and labour over the distribution of the product; and this can only ultimately be resolved by labour's securing the whole value of what it produces. The struggle must be waged by a working class organised on militant class lines, and prepared to use either industrial or political action as circumstances dictate. (This is in marked contrast to Owen's reformist, Utopian belief in class co-operation.)

(4) *Christian Socialism*. The aims of the Christian Socialists bore a close resemblance to those of Owenism, though of course the inspiration was different – in the one case a Benthamite belief in universal happiness, in the other a concern with Christian ethics. But for both the essential evil was the competitive pursuit of private gain, and the objective a co-operative society of communal ownership, in which mutual love and brotherhood would replace the selfish antagonisms inevitably bred by competitive capitalism.

(5) *Marxism*. Like some earlier socialist doctrines, Marxist economics were based on a Ricardian labour theory of value, and a somewhat more refined theory of surplus value and exploitation. The worker, who could support himself by working only  $x$  hours a day, is in fact compelled to work  $x$  plus  $y$  hours; and the entire fruits of  $y$  accrue to the capitalist as surplus product.

## THE TRADITIONS OF BRITISH SOCIALISM

There is therefore a basic conflict between workers and bourgeoisie, which must be fought out with all the weapons of class-war. The root of capitalist power lies in the ownership of the instruments of production; and the vital condition of success for the working class is therefore the expropriation of these instruments. The struggle over their ownership will grow continuously more bitter, for capitalism suffers from certain insoluble inner contradictions which must lead to growing pauperisation, and eventually to collapse and revolution.

The most novel and, as it has proved, most influential element in this doctrine was the central role ascribed to the capitalist monopoly of the means of production, and the insistence that this must be replaced by state ownership as soon as the workers have created a proletarian state. Marx was in truth the founder of the State or collectivist tradition in socialism, as opposed to earlier notions of communal or co-operative ownership.

(6) *The theory of rent as unearned increment.* This was developed from the Ricardian theory of rent by John Stuart Mill, and was later popularised, with for a time enormous success, by Henry George. It was a doctrine directed primarily against landlords. Economic progress causes a constant increase in land-values. This goes to enrich the owners, although they have in no sense 'earned' the increment, which would accrue to them though they were totally passive and idle. It is the product solely of the fact that land is in limited supply, and effectively monopolised by its existing owners. Since it is clearly inequitable that the additional wealth created by society should be sequestered by the landlords, and since this deprives labour of its just reward, the land should be nationalised, or at least land-values heavily taxed, so that the increment may in future be enjoyed by the whole community.

(7) *William Morris and anti-commercialism.* Competitive commerce degrades the worker as producer. It drains the craft and satisfaction out of labour; it destroys art and good design; and it creates a vulgarised upper class, and an intolerable gap between rich and poor. There is no help to be looked for from the state, nor from Parliament, nor from the collectivist socialists, who are likely merely to fasten a new bureaucracy and tyranny on the worker. Competition must be replaced by small co-operative units, and economic activity decentralised down to local communes. The need for a central state will then disappear, and

even the nation will lose its function. Once the twin evils of central state authority and commercialism have been eliminated, all wealth will be held in common, competitive antagonisms will fade away, and labour, performed for pleasure and not for profit, will again assume the dignity of a craft occupation.

(8) *Fabianism*. The early Fabians owed little to previous socialist thinkers, and in particular nothing to either Owen or Marx.<sup>1</sup> Their intellectual derivation was wholly non-socialist – from Ricardo, Mill, Jevons, and Henry George.

Specifically, they extended the Mill-George theory of rent as an unearned increment to other factors of production besides land. The owners of any factor which possessed a differential advantage would, with increasing prosperity, become possessed of large economic rents, measuring the natural superiority of the more favoured over the marginal establishments. But since these special advantages are normally inherent qualities of the factors of production concerned, the differential rents are a pure unearned increment: not the product of any efforts on the part of the capitalists themselves, but the automatic consequence of social labour and development. Land and industrial capital must therefore be emancipated from individual or class ownership, and vested in the community by nationalisation. Rent and interest will then accrue to the state, and can be equitably shared amongst the whole population (though not necessarily equally – if labour were to be granted its 'whole product', efficiency might suffer).

The Fabians stressed the virtues of collective (state or municipal) action not only in respect of ownership, but in every sphere. Any extension of collective at the expense of individual activity constitutes an advance towards socialism, including the registration by the state of playing-card makers, hawkers, dogs, cabs, places of worship and dancing-rooms.<sup>2</sup> This implies, of course, a view of the state diametrically opposed to that of Marx, who thought that nothing good could come out of the capitalist state, which must be overthrown and replaced by a workers' state *before* collectivism could be established. The Fabians, instinctive gradualists and permeators, believed on the contrary that reform could come through the existing capitalist media.

<sup>1</sup> Their contempt for Marx was reciprocated on his behalf by Lenin, who called them 'filthy froth on the surface of the world labour movement'. (Quoted by Gray, *op. cit.*, p. 485n.)

<sup>2</sup> Sidney Webb, *Fabian Essays* (1931 edition), pp. 44-7.

(9) *The I.L.P. tradition.* This has been extremely influential, but is not easy to define. It was the early Independent Labour Party that Professor Cole had in mind when he wrote of 'a Socialism almost without doctrines . . . a broad movement on behalf of the bottom dog';<sup>1</sup> and what there was of doctrine was a simple amalgam of previous doctrines. Yet there is still something distinctive about the I.L.P. tradition. This unique element is neither doctrinal nor intellectual, but rather a particularly strong insistence, largely Nonconformist in origin, on the brotherhood of man, on fellowship, service, and altruism. This is stressed not only in a domestic context, but equally in relation to other countries. The internationalist tradition of the Labour Party stems far more from the 'international brotherhood of man' appeal of the I.L.P., than from the 'workers of the world, unite!' slogan of the Marxists. It is this generous, idealistic, deeply religious emphasis on brotherhood and altruism which justifies us in identifying the I.L.P. as a separate influence – and one very different in spirit from the Fabian, as may be seen from the contrasted reactions of the two bodies to the Boer War.

(10) *The Welfare State or paternalist tradition:* the rejection of the *laissez-faire* doctrine that the state has no obligation to its citizens (save for the protection of property), and indeed a positive obligation to remain inactive: and the affirmation of the opposite view that the state must accept responsibility for preventing poverty and distress, and for providing at least a subsistence minimum of aid to such citizens as need it.

This has not always been a distinctively socialist doctrine – indeed, it was only in the era of classical competitive capitalism that the 'night-watchman' view of the state (to use Lassalle's phrase) was prevalent. The opposite view was normal up to the time of the Industrial Revolution, and of course is now once more widely accepted outside the socialist parties. But the *laissez-faire* view prevailed for the whole of the nineteenth century; and since during that period the socialist movements were the only serious anti-capitalist force, the paternalist view of the state came to be associated with them. It runs through many of the doctrines mentioned above, and others not mentioned here. It can perhaps be traced back first, amongst socialist thinkers, to Louis Blanc, but more reliably to Lassalle and the German Social-Democratic

<sup>1</sup> op. cit., p. 22.



Party. In Britain, it may be said to be implicit in much of the Chartist propaganda for universal suffrage, and traces of it can be found in S.D.F. and early I.L.P. writings. But it was the Fabians who first gave it strong overt expression. Since then it has become, in the shape of demands for social security and a guaranteed national minimum, perhaps the most deeply-felt item in Labour policy.

(11) *Syndicalism and Guild Socialism*. On the continent, Syndicalism constituted a separate tradition in its own right (especially in the Latin countries), with deep roots in anarchism, a long literature, and many famous exponents. But in Britain continental syndicalism held only a brief sway in the immediate pre-1914 years, and British Guild Socialism owed as much to Ruskin and Morris as to the C.G.T. or the I.W.W.

Guild Socialism was a violent reaction against collectivist state socialism. The state socialists mistook the problem by failing to see that the central evil of the capitalist system was not private property-income, but the wage system, or 'wagery'. This evil would not be eliminated by collectivisation, which would merely throw up a new industrial bureaucracy, as unpleasant as the old. It could be eliminated only by establishing workers' control in industry by means of syndicalist industrial guilds. This alone would guarantee justice to the worker as producer. It is of no use to look to Parliament or the state to create this transformation; it requires revolutionary strike action by the Trade Unions. The whole emphasis is on the worker as producer, not as consumer: on workers' control, not the division of income: and on the Trade Unions, and not the state, as the spearhead of advance.

(12) *The doctrine of planning*. This was a late development in socialist thought, and attracted scarcely any attention before 1914.<sup>1</sup> It was largely a response to the increasingly severe incidence of unemployment in the inter-war period, combined with the apparent success of the Soviet Five-Year Plans; and it later became caught up in the Keynesian Revolution (though Hobson still deserves credit as an early prophet). By the late 1930s a

<sup>1</sup>Shaw's preface to the 1931 edition of *Fabian Essays*, for example, is wholly concerned with unemployment and the need for socialist planning (plus an end to the Parliamentary Party system) to cure it. But his original essay, and his preface to the 1908 edition, were exclusively concerned with unearned surplus value, and made no mention of planning.

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variety of arguments were being used to support the case for planning – academic theories of ‘imperfect competition’, Piggian welfare economics, the maldistribution of incomes, the distinction between ‘production for use’ and ‘production for profit’, and so on. But the essential argument was based on unemployment; and from 1931 onwards planning for full employment became the first objective of Labour policy.

### III *The Predominant Themes*

What emerges from this brief catalogue? Above all the variety and heterogeneity. It is this which makes it impossible to isolate any one orthodoxy to be consulted now for guidance about the future.

It is obvious enough that socialist thought varies through time, and that different doctrines prevail at different periods. This is as it should be. It is not even surprising that different doctrines should be supported at the same time – Owenism and Chartism, Marxism and Christian Socialism, Fabianism and Guild Socialism; there must always be divergent views on the right emphasis and order of priorities, and these will prevent a uniformity of thought. The trouble is that some of the divergences are not a matter simply of emphasis or the right priorities. They are fundamental, and the doctrines mutually inconsistent.

Thus Fabian collectivism and Welfare Statism require a view of the State diametrically opposed to the Marxist view. The syndicalist tradition is anti-collectivist. The Marxist tradition is anti-reformist. Owenism differs fundamentally from Marxism and syndicalism on the class-war. Morrisite communes and Socialist Guilds are incompatible with nationalisation: and so on.<sup>1</sup>

How then to decide which is the correct scripture? It is, of course, impossible. All we can do is to pick out certain recurrent

<sup>1</sup> And if anyone doubts the mutual hostility of these various schools of thought, he has only to read any passage in Marx on any other socialist thinker (save naturally for Engels); or he can refer, to take a later English example, to the early literature of the Guild Socialists – ‘Collectivists may take their choice:’ wrote Mr. Cole, ‘they are knaves, who hate freedom, or they are fools, who do not know what freedom means, or they are a bit of both.’ (*Self-Government in Industry*, p. 231.) After this outburst, references to ‘the dotards of the *New Statesman*’, or ‘the Sir and Lady Oracle of the Labour Movement’, seem positively courteous.

themes (whether mutually consistent or not) which have exercised a predominant influence, and which are common to more than one school of thought: and ask whether they are applicable in Britain to-day. In so doing, we need to distinguish in each case between the objective, the means and policies chosen to carry out the objective, and the ideologies or theories by which the objectives and the choice of means are justified.

Five predominant themes can be distinguished (though they often overlap): the appropriation of property incomes, co-operation, workers' control, social welfare, and full employment.

(1) The objective of the appropriation by society of the rewards of capital (rent, interest, profits) by means of the abolition of private property, and the substitution for it either of communal co-operative ownership (the land reformers, Owen, Morris) or collectivist state ownership (Marx, the Fabians, the modern Labour Party), the collectivist view naturally gaining ground with the growth of large-scale units.

The theoretical justification has varied through time, but the constant element has been the theory of a surplus product, due to the effort of labour, but impounded by the owners of property. This theme, of the exploitation of the worker, runs through all the natural law doctrines, the deductions from Ricardo's theory of value, the Marxist theory of surplus value, the Mill-George theory of rent, and the generalised Fabian theory of unearned increment.

Few of these justifications have stood the test of time. Not many people to-day accept the doctrine of *ius naturale*, or the Ricardo-Marx labour theory of value,<sup>1</sup> or the theories of Henry George.<sup>2</sup> This, however, is of no great importance, since a desire to diminish extravagant property incomes can be quite soundly based on a normative judgment about equality, such as Robert Owen made when he argued that inequality created social discontent, or on a moral objection to large unearned incomes.

<sup>1</sup> Even Mrs. Robinson, in her gallant endeavour to rehabilitate Marx as an economist, is forced in this connection to quote Voltaire's *mot* that you can kill a flock of sheep by witchcraft if you give them plenty of arsenic at the same time, and to admit that the labour theory of value serves mainly to provide the incantations. (*An Essay on Marxian Economics*, p. 27.)

<sup>2</sup> I am assuming in particular that no socialist now thinks the worker should be paid the whole value of his product – some surplus value must be extracted for capital accumulation (v. Chapter XX). The objection is to large property incomes.

## THE TRADITIONS OF BRITISH SOCIALISM

But, more serious, the means chosen to carry out the objective are not, in contemporary Britain, necessarily the most appropriate ones. The Labour Party having decided, rightly, to pay full compensation, the transfer of industries to state ownership does not have any large or immediate effect on the distribution of income.<sup>1</sup> Over the long run there is, of course, a connection; but even in the long run other methods of redistribution are now seen to be simpler and more effective. As a determinant of relative shares in total income, the ownership of industrial property is less important than the level of employment, the behaviour of prices, government controls (e.g. over rent or dividends), and above all taxation policy; and a determined government can restrict property incomes more easily than by the collectivisation of industry with full compensation. In addition, nationalisation has thrown up certain stubborn and largely unexpected problems which, so long as they remain unsolved, in any case make it impracticable to rely on public ownership as the main method of raising wages at the expense of property incomes.

In fact the other methods have already gone some way to fulfilling the desired objective. There has been an important transfer from property-incomes to wages since 1939; and the distribution of wealth is now much more egalitarian. Certainly much remains to be done; but fiscal policies offer a simpler and quicker way of doing it than wholesale collectivisation.<sup>2</sup>

This does not mean that nationalisation may not be justified on other grounds, nor that over the long period it has no influence of any kind on income-distribution, nor that the egalitarian objective to which it was directed has lost its relevance. It simply means that the ownership of the means of production, as the last chapter has already shown, is no longer the *essential* determinant of the distribution of incomes; private ownership is compatible with a high degree of equality, while state ownership, as the Russian experience has demonstrated, may be used to support a high degree of inequality.

(2) The objective of substituting for unrestricted competition and the motive of personal profit some more social organisation and set of motives, by means either of co-operative undertakings

<sup>1</sup> For a detailed discussion of this point, v. Chapter XXIII, Section I.

<sup>2</sup> v. Chapter II for the change in income-distribution, and Chapters XIV and XV for a discussion of further egalitarian fiscal policies.

or state ownership. (R. H. Tawney, a magisterial authority in these matters, considers this objective to be the basic element in socialism.)<sup>1</sup> It has two sources of inspiration.

(a) The first is ethical, and springs from a desire to replace competitive social relations by fellowship and social solidarity, and the motive of personal profit by a more altruistic and other-regarding motive. The combination of competition and the profit motive was equally offensive to Robert Owen (because it militated against human happiness), the Christian Socialists (because it ran counter to Christian ethics), Ruskin and Morris (because it bred ugliness and commercialism, and debased the quality of labour), and the pioneers of the I.L.P. (because it denied the brotherhood of man).

Few will quarrel with this ethical aspiration towards a more fraternal and co-operative society – indeed, it is remarkable how it anticipates the writings of many contemporary sociologists. The difficulty is to find the framework within which it can be fulfilled. So far as social organisation is concerned, it will clearly not be fulfilled simply by eliminating industrial competition, since this constitutes only a small (and diminishing) part of the sum total of competition in modern society. We are now more vividly aware of the wide extent, in any country having pretensions to equal opportunity, of feelings of emulation, rivalry, and competitive envy; indeed, the more successful the Left is in equalising opportunities, the more all-pervasive must competition (for jobs, promotion, social prestige) become – whether or not the organisation of industry is formally competitive.

Industry itself, moreover, has become a great deal less competitive since these doctrines were in their prime, so much so that it is now an applauded object of government policy to make the private sector rather *more* competitive. There is little risk, in view of the mild and refined character of the British businessman's competitive instinct, that this will set citizens too violently at one another's throats; and this reinforces the point that there are now more pressing causes of antagonism to be attended to than competition between capitalists.

In addition, most people would now feel doubts about Robert Owen's view of the relation between social organisation and individual character. On the one hand, we know enough to perceive

<sup>1</sup> In his Introduction to Beer, op. cit., p. vii.

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that the simple act of replacing individual by group or collective relationships does not necessarily make people more contented, or fraternal, or amiable; while on the other hand, we know too little to dogmatise about how groups can or should be organised in such a way as to achieve these desired results.<sup>1</sup> And the traditional means are either wholly inappropriate, or not sufficient in themselves: small-scale co-operative units are not practicable under modern conditions, while state ownership, as at present conceived in terms of nationalised public boards, does not self-evidently induce a co-operative spirit or sense of social solidarity – at the very least the point remains unproven.

When we turn to the question of personal motives, we find again that developments over the last century have served to complicate the issue. Those socialists who think it immoral and degrading that men should work for money, and not for loving-kindness or social duty, cannot now fasten on profit as the only object of their obloquy; for profits are no different in kind as an incentive from piecework earnings, bonus systems, or even the incentive of a rise in salary. And the steady spread of incentive payments has extended the system of differential rewards for differential effort over so large a part of the population that merely to abolish industrial competition or private ownership would do little to alter matters – the money incentive is just as pervasive under monopoly or public ownership. Even assuming, moreover, that people would work better and be happier, or that the moral tone of society would be improved, if they no longer worked for personal gain, it is increasingly hard, in view of the growth of large-scale production, to see the institutional framework within which a change in motives could be effected.<sup>2</sup> Again the traditional means do not provide a sufficient answer; guilds and communes are ruled out on technical grounds, and state ownership has not produced the hoped-for change. Although, therefore, the aspiration has clearly not been fulfilled, the method of attaining a more co-operative society must be re-appraised in the light of technical changes and greater knowledge.

(b) The second objection to private profit and competition was economic, and related to the actual material results of classical capitalism. Poverty, slums, malnutrition – these were ascribed

<sup>1</sup> These points are discussed in more detail in the next chapter (Section IV).

<sup>2</sup> *v.* next chapter, Section IV.

to the fact that production was carried on for profit and not for use, and was directed to satisfying the demands of the rich before the needs of the poor. Only public ownership would ensure a more equitable and socially desirable allocation of resources.

Now it is quite true that production for profit, conducted within a framework of very unequal incomes, must give a distribution of resources highly distasteful to socialists, because it takes no account of needs, however urgent, but only of monetary demand. It is further true that the means chosen (state ownership) could in principle fulfil the objective of a different and more equitable distribution of resources.<sup>1</sup>

But the objective can also be achieved by other means, and has been largely so achieved to-day. The statement that production for profit gives a bad distribution of resources (caviar for the rich before milk for the poor) is only a shorthand. What is meant is that production is undertaken for profit: that the distribution of purchasing power determines what is profitable: and that if this is very unequal, then the wants of the rich will be met before the needs of the poor. But if purchasing power is distributed more equally, it becomes more profitable to produce necessities, and less profitable to produce luxuries. The objection is thus fundamentally not to the role of profit, which is merely to reflect and communicate the distribution of demand, but to the distribution of demand itself – to the fact that the rich had so much money to spend on caviar, and the poor so little to spend on milk.

But to-day the redistribution of incomes, and the rise in working-class purchasing power, have banished the worst effects of production for profit by calling forth a quite different pattern of output. It is now highly profitable to produce articles, whether necessities or luxuries, for mass working-class consumption; indeed, by far the greater part of production for the home market takes this form. Moreover, a further weapon is at hand – fiscal and physical controls – which can also be used, and was widely used by the Labour Government, to enforce a pattern of output even on privately-owned industry different from that which the price-system, left to itself, would call forth. These influences now

<sup>1</sup> I say 'in principle', because in practice the nationalised industries have not always proved either amenable to government planning, or themselves capable of contributing to a more intelligent allocation of resources (r. Chapter XXII, Section II).

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give an allocation of resources much nearer to what most people would consider desirable; that is, far more resources than previously are devoted to satisfying the wants of 90% of the population, and far fewer to satisfying those of the richest 10%. And if a further move towards an 'ideal' distribution is desired, this can be easily accomplished without an extension of state ownership.<sup>1</sup>

Thus the historic anti-competitive theme, in both its aspects, provides a second case where so much has changed that the traditional doctrine now seems over-simplified, and new ways of fulfilling the aspiration either have been, or can be, or must be found.

(3) The objective of workers' control. Syndicalists, Morrisites and Guild Socialists, all starting from the belief that the central feature of capitalism was the exploitation of the worker, had as their common objective the control of industry by the actual producers. The means chosen were various – control by the Trade Unions, or Socialist Guilds, or Morrisite communes. But the ideological justification was always a syndicalist version of Marxism, based essentially on the twin notions of 'wagery' (that labour is bought and sold like any other commodity, that its status is thus, as one prominent Guild Socialist put it, 'exactly that of manure', and that the wage-bargain is consequently of the essence of slavery), and the uselessness of political action as a method of reform. Only industrial action can liberate the worker from his capitalist chains, and once freed he must re-organise production (having fought off the efforts of the collectivists to re-enslave him) in self-governing guilds.

Now this theoretical analysis clearly makes no sense to-day, whatever truth it may have had fifty years ago. The idea that the worker is an impotent wage-slave, contemptuously and ruthlessly exploited, bears no relation to modern conditions; nor does the belief that no help can ever come from the state. Steadily over recent decades, the individual worker has gained in strength vis-à-vis his employer, and the Trade Unions in relation to society as a whole. The best evidence for this gain lies on the one hand in the constant complaints of individual employers that they can no longer 'discipline' their workers, and on the other hand in

<sup>1</sup> v. Chapters XXII and XXIV for a full discussion of the relation between planning and public ownership.



the widespread admission that even under a Conservative Government the Trade Unions remain effective masters of the industrial scene.<sup>1</sup> A generation ago, victimisation or arbitrary dismissal came as naturally to individual employers, as collective campaigns for wage-cuts to the employing class as a whole; to-day the first is a rarity, the second a complete impossibility. It is clear that a revolutionary change in the balance of power has occurred, which both makes nonsense of the original syndicalist case and constitutes at the same time a partial fulfilment of the objective.

Of course the particular forms of workers' control proposed would in any event have been impracticable, having been outmoded by the mass-production revolution and the trend towards large scale and technical complexity. These make any craft or guild organisation, based on analogies with the Middle Ages, quite inappropriate to-day. Their cost in terms of efficiency and the standard of living would be enormous – like all Utopian schemes, Guild Socialism had a purely static quality, and took no account of the dynamic problems of economic growth and technical innovation.

An important advance has been made, and the desire to improve the worker's status has been partially fulfilled by other than the traditional means. Nevertheless, the objective is not yet fully realised, and is rightly engaging attention to-day.<sup>2</sup> But it must, if confusion is to be avoided, be divorced from the theories and policies with which it was historically linked in socialist doctrine. We now need, for obvious reasons, a form of organisation which is consistent with efficiency and innovation, as well as with democracy; and this the traditional ideas do not provide.

\* (4) The welfare objective: the abolition of primary poverty, and the guarantee of a general subsistence minimum by means of universal social services. To the great majority of British socialists, who never embraced any particular theoretical creed, this

<sup>1</sup> *v.* Chapter I. This is increasingly true in the U.S. also. Even in those industries traditionally considered the citadels of capitalist power, Trade Union strength is now overwhelming. In steel, a trial of strength between Unions and employers has twice recently (1952 and 1955) resulted in the almost complete victory of the former. In coal, John L. Lewis can call a 10-day 'memorial holiday' to give the mine-owners an 'opportunity' of examining their safety precautions; and they can do nothing to stop him. In the auto industry, the U.A.W. not merely forces the employers to accept the principle of the guaranteed annual wage, but compels the smaller firms almost to plead for mercy – American Motors argued publicly last year that it was U.A.W.'s 'responsibility' to take the company's marginal position into account.

<sup>2</sup> *r.* Chapters XVI and XVII.

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practical, non-doctrinal, humanitarian attack on poverty was much the most powerful inspiration from the earliest days of the Labour Party. It appealed equally to the ethical or religious desire to help one's fellow-men, and to the Fabian instinct for social improvement along efficient collectivist lines.

Just as it was the most deep-seated instinct, so it was, in its historic form, the first objective to be substantially fulfilled when Labour came to power. Primary poverty has been largely eliminated; the 'Beveridge revolution' has been carried through; and Britain now boasts the widest range of social services in the world, and, as a result, the appellation 'Welfare State'. It is true that considerable areas of social distress, not mainly due to primary poverty and of a character not always foreseen by pre-war socialists, still remain. But that is a new and different question.<sup>1</sup> The historic objective has, in Britain, largely been attained; and the traditional means of universal, indiscriminate social services are in any case not always the most appropriate to the more subtle social problems which remain.

(5) The objective of full employment, to be achieved by government planning, and notably by fiscal and monetary policies. This cannot continue to be a major item in a distinctively socialist programme, so long as it is carried out by the Conservative Government. Of course, if unemployment due to deficient home demand were to reappear, then the full employment theme would provide all the dynamic needed to sweep Labour back into power with an unambiguous programme. But while the Conservatives decline to be so incompetent, the objective must be considered as achieved; and I personally believe, and argue later,<sup>2</sup> that the deflationary tendencies of the inter-war period were exceptional, and that the years ahead are more likely to be characterised by inflation than unemployment.<sup>3</sup>

### IV *The Need for a Restatement*

This gives a rather high proportion of traditional objectives either substantially achieved, or now irrelevant to the end in

<sup>1</sup> Which is discussed in detail in Part Two.

<sup>2</sup> v. Chapter XIX.

<sup>3</sup> This does not mean that British Governments can always guarantee permanent full employment if severe crises occur abroad. But these would present a problem different both in character and in magnitude from the pre-war unemployment problem.

view; and of traditional means or policies which have either been fully exploited already, or else are no longer appropriate ways of reaching the objective, or else are impracticable under modern conditions, or else have been replaced by more efficient means. Surely the verdict must go against the traditionalists, and in favour of revisionism.

Herzen, we are told, used to say of Heine and his friends that their minds were so lofty, and they found the study of contemporary conditions so uncongenial, that 'to understand the moan of humanity lost in the bogs of to-day, they had to translate it into Latin and arrive at their ideas through the Gracchi and the proletariat of Rome'.<sup>1</sup> Similarly to-day, conservative or indolent-minded people on the Left, finding the contemporary scene too puzzling and unable to mould it into the old familiar categories, are inclined to seek refuge in the slogans and ideas of 50 years ago. But Keir Hardie cannot provide,<sup>2</sup> any more than can the Gracchi, the right focus with which to capture the reality of the mid-twentieth-century world.

<sup>1</sup> Quoted by Edmund Wilson, *To The Finland Station* (Secker and Warburg, 1940), p. 163.

<sup>2</sup> As, indeed, with his remarkable blend of idealism and practical shrewdness, he would have been the first to realise.

## V

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### THE MEANING OF SOCIALISM

#### I *The Psychological Resistance to Revisionism*

IT is surely time, then, to stop searching for fresh inspiration in the old orthodoxies, and thumbing over the classic texts as though they could give oracular guidance for the future. The first need now, in R. H. Tawney's words, 'is to treat sanctified formulae with judicious irreverence and to start by deciding what precisely is the end in view.'<sup>1</sup>

The need for a restatement of doctrine is hardly surprising. The old doctrines did not spring from a vacuum, or from acts of pure cerebration performed in a monastery cell. Each was the product of a particular kind of society, and of minds reacting to that society. Since this external factor was not constant and unchanging, the doctrines changed through time. And as society has changed again since before the war, so again a restatement of objectives is called for. The matter can be put quite simply. Traditional socialism was largely concerned with the evils of traditional capitalism, and with the need for its overthrow. But to-day traditional capitalism has been reformed and modified almost out of existence, and it is with a quite different form of society that socialists must now concern themselves. Pre-war anti-capitalism will give us very little help.

The traditionalists may comfort themselves by reflecting that this will not be the first time that socialism has been restated; nothing is more traditional in the history of socialist thought than the violent rejection of past doctrines. Marx expended

<sup>1</sup> *Socialist Commentary*, June 1952.

prodigious energy in flaying the Utopian and Owenite brands of socialism that held the field before him. The Fabians used less vitriolic pens, but were as vehement in rejecting Marx as Marx had been in rejecting Owen. Neither owed anything significant to previous doctrine. Thus even revisionism is hallowed by an appeal to the past; and the common-sense view that the more is achieved, the less relevant traditional dogmas become, need not be thought heretical.

But it will, nevertheless, be unpopular. I am not thinking simply of the fact that people dislike new ideas, and hate to be jolted out of the old, familiar habits of mind: but of a more subtle reason why revisionism has, historically, always been resented. This is because many working-class militants, and still more some middle-class people who have espoused the workers' cause, feel their whole status and psychological security to depend on preserving a traditional, proletarian philosophy of class-struggle.

For the middle-class socialist, this is because he may think that he must prove himself more royalist than the king – that he must be combatively traditional and doctrinal in order to be accepted as a good comrade, to win the approval of the workers, and feel that he really 'belongs' to their party; in politics, as in religion, the most rigid attachment to dogma is often to be found amongst the converts. And for the working-class activist, devoting his entire energies to the socialist movement, both his social status and emotional certainty depend on the conviction that militant struggle is necessary; it is only on this assumption that his life makes sense. Revisionism, by casting doubts on the need for militancy, or suggesting that the class-struggle is now rather out-of-date, challenges both his social and emotional security; if class-conscious anti-capitalism is obsolete, what is his status as a militant, and what his purpose in life? Hence the anger with which criticisms of militancy or class-struggle are often greeted.

Bernstein, the great socialist 'revisionist', discovered this more than 50 years ago. Arthur Rosenberg wrote that 'the practical advantages of the revisionist theory for the labour movement were far greater than those of official radicalism. . . . Nevertheless the majority of the International refused to acknowledge [its] logical justification and rejected it with impassioned vehemence. For the majority of the workers the gesture of protest and isolation with respect to the bourgeois state had become a vital

necessity. Popular Marxism . . . endowed [them] with self-reliance, consolation, and hope for the future, almost reminding one of a religious movement. If they had accepted the proposals of the revisionists, however, [they] would have been compelled to renounce their Utopian belief in the future and their vitally necessary class sentiment.<sup>1</sup> This instinctive clinging to class-consciousness can still be found in the Labour Movement to-day.

And there is now an additional psychological reason for resenting revisionism, stemming from the very success of the socialist movement. M. Raymond Aron has correctly observed that 'Socialism has ceased in the West to be a myth because it has become a part of reality'<sup>2</sup> – not, of course, a complete reality, but sufficiently so to be no longer a myth. Labour Governments have been in power, and have found responsibility harsher and quite different from anything they expected; while full employment and social security have destroyed the rationale of much of the old emotional enthusiasm.

Revisionism draws attention to this new reality. It is an explicit admission that many of the old dreams are either dead or realised; and this brutal admission is resented. It is resented, first, because it destroys the old simplicity, certainty, and unquestioning conviction. 'The will to Socialism', wrote G. D. H. Cole before the war, 'is based on a lively sense of wrongs crying for redress'.<sup>3</sup> And when the wrongs were so manifest, we all knew what to do, and where the enemy was, and what was the order of battle; it was exhilarating to fight for such clear-cut and obviously righteous aims. But now the certainty and simplicity are gone; and everything has become complicated and ambiguous. Instead of glaring and conspicuous evils, squalor and injustice and distressed areas, we have to fuss about the balance of payments, and incentives, and higher productivity; and the socialist finds himself pinioned by a new and unforeseen reality.

And the objective has become not only less clear-cut, but also, after the reforms described in the first two chapters, less urgent; hence it no longer excites the same crusading spirit. But people want something to crusade about; and even the partial fulfilment

<sup>1</sup> *Democracy and Socialism* (Bell, 1939), pp. 314-15. The next sentence is not without interest to-day. 'If content, and not external form, is considered, it must be admitted that the revisionists were actually much better Marxists than their "radical" opponents.'

<sup>2</sup> *The Century of Total War* (Verschoyle, 1954), p. 355.

<sup>3</sup> *The Simple Case for Socialism* (Gollancz, 1935), p. 15.

of a dream leaves a feeling of lassitude and anti-climax. 'Oh, how I should like to begin all over again!' cries Olof in Strindberg's play at the moment when the Reformation triumphs; 'it was not victory I wanted – it was the battle!'; and many socialists, deep down, feel much the same.<sup>1</sup> A people enjoying full employment and social security has lost its dreams, and lost the need to struggle; and the activists in consequence feel restless and frustrated.<sup>2</sup> That is why they resent revisionist thinkers who compel them to face the new reality, and try to delude themselves instead that all the old enemies – capitalist barons, Wall Street, exploiting profiteers – are still there, waiting to be attacked. 90% of resolutions at Annual Conference to-day are Quixotic tilts at objects still hopefully seen as 'outrageous giants of that detested race'; unfortunately, there are too few Sancho Panças to point out that they are really only windmills.

## II *The Confusion between Ends and Means*

If we are to reformulate socialist doctrine, the first task is clearly to decide what precise meaning is to be attached to the word 'socialism'.

This is not an easy question to answer. The word does not describe any present or past society, which can be empirically observed, and so furnish unimpeachable evidence for what is or is not 'socialism'. Thus statements about socialism can never be definitely verified; and we cannot treat it as being an *exact* descriptive word at all. There is therefore no point in searching the encyclopaedias for a definitive meaning; it has none, and never could.

This can easily be seen by considering the numerous and, as the previous chapter showed, often inconsistent meanings attached to the word by people who have called themselves 'socialists'. Marx, defining it as the 'nationalisation of the means of production, distribution, and exchange', meant something quite different from Proudhon, who defined it as consisting of 'every

<sup>1</sup> *Master Olof* (Act III). Olof's later cry to his brother has the same pathos: 'Then we are enemies! I need them, since the old ones are gone.'

<sup>2</sup> In Sweden, as early as 1946, the Socialist leader Per Albin Hansson said: 'We have had so many victories that we are in a difficult position. A people with political liberty, full employment, and social security has lost its dreams.'

aspiration towards the amelioration of our society'. Sir William Harcourt, declaring in 1892 that 'we are all socialists now', evidently had a different version from his contemporary Bradlaugh, to whom socialism meant that 'the State should own all wealth, direct all labour, and compel the equal distribution of all produce'. And any history of socialist thought will provide dozens of different definitions, some in terms of ownership, some of co-operation, some of planning, some of income-distribution; and it soon becomes simply a matter of subjective personal preference which is chosen as the 'correct' one. Many definitions, moreover, are so vague as to be virtually meaningless; one can read almost anything, for example, into Sidney Webb's definition: 'the economic side of the democratic ideal'.

The confusion has become worse inasmuch as the word is also charged with a high degree of emotional content, and so has acquired a range of purely persuasive meanings. It is either used to denote or win approval, as in Hitler's National 'Socialism' and 'Socialism' in Eastern Europe, or when Left-wing weeklies attack a policy which they dislike as not being 'Socialist'; or pejoratively, as when Right-wing Americans speak of 'creeping Socialism'.

But the worst source of confusion is the tendency to use the word to describe, not a certain kind of society, or certain values which might be attributes of a society, but particular policies which are, or are thought to be, means to attaining this kind of society, or realising these attributes. To rescue the word from these confusions, and the debasement referred to above, one must begin by asking what, if anything, is common to the beliefs of all, or almost all, of those who have called themselves socialists. The only constant element, common to all the bewildering variety of different doctrines, consists of certain moral values and aspirations; and people have called themselves socialists because they shared these aspirations, which form the one connecting link between otherwise hopelessly divergent schools of thought.

Thus the word first came on the modern scene with the early nineteenth-century Owenites, whom Marx contemptuously termed 'Utopian' socialists.<sup>1</sup> They based their 'socialism' explicitly on an

<sup>1</sup> To be precise, the word first occurs in *The Co-operative Magazine* in 1827, and was used to describe the views and demands of the original London 'Co-operators'. 'They based their demands on moral grounds, on the doctrines of Robert Owen, and on the theory of labour value.' (Max Beer, *op. cit.*, p. 187.)



ethical view of society, a belief in a certain way of life and certain moral values. The means by which they thought this 'good society' could be attained are irrelevant to-day; and in fact they were quickly challenged by other socialist schools of thought, since when a continuous debate has proceeded, with no agreement, about what constituted the most suitable means. This debate would have no particular interest to-day, but for the fact that all the protagonists tried to appropriate the word 'socialism' to describe the particular means which they themselves favoured.

Thus Marx appropriated it for the collective ownership of the means of production on the false assumption, analysed in Chapter III, that the pattern of ownership determined the character of the whole society, and that collective ownership was a sufficient condition of fulfilling the basic aspirations. And generally the word came to be applied to policies for the economic or institutional transformation of society, instead of to the ultimate social purposes which that transformation was intended to achieve; so one often hears socialism equated not only with the nationalisation of industry, but with government planning, or redistribution, or state collectivism. This of course is quite unhelpful, for although people may agree on ends, they may legitimately disagree about means. Moreover, the means most suitable in one generation may be wholly irrelevant in the next, and in any case (still more significant) a given means may lead to more than one possible end, as indeed has happened with each of the policies just mentioned.<sup>1</sup>

Thus if, for example, socialism is defined as the nationalisation of the means of production, distribution and exchange, we produce conclusions which are impossible to reconcile with what the early socialists had in mind when they used the word: such as, that Soviet Russia is a completely socialist country (much more so, for instance, than Sweden) – even though it denies almost all the values which Western socialists have normally

<sup>1</sup> The use of the term 'ends' and 'means' might seem to imply a Utopian or 'blueprint' view of society – a belief that society might, or could, settle down to a stable, unchanging state, analogous to the classical 'stationary' state of economics. And of course most early socialists did hold this view. But as used in the text, the word 'end' is to be understood simply as describing principles or values, such as equality, or justice, or democracy, or co-operativeness, which might or might not be embodied in, or determine the character of, a particular society: and the word 'means' as describing the essentially institutional changes required to realise, or at least promote, these values in practice.

read into the word. Similarly, if socialism is defined as economic collectivism or State control of economic life, then Nazi Germany would correctly have been called a socialist country. But in neither case would the end-result be described as socialism by most socialists; the means of nationalisation and planning have proved adaptable to more than one purpose, which shows how unwise it is to identify the means with the end.

Not only is it unwise, but it is also semantically and historically incorrect. The various schools of thought which have called themselves, and been called by others, 'socialist' – Owenites and Marxists, Fabians and Christian Socialists, Syndicalists and Guild Socialists – have differed profoundly over the right means; and no one means has a better title to the label 'socialist' than any other. The one single element common to all the schools of thought has been the basic aspirations, the underlying moral values. It follows that these embody the only logically and historically permissible meaning of the word socialism; and to this meaning we must now revert.

### III *The Basic Socialist Aspirations*

These ethical and emotional ideals have been partly negative – a protest against the visible results of capitalism – and partly positive, and related to definite views about the nature of the good society; though of course negative and positive strands are often inter-twined.

Perhaps one can list them roughly as follows. First, a protest against the material poverty and physical squalor which capitalism produced. Secondly, a wider concern for 'social welfare' – for the interests of those in need, or oppressed, or unfortunate, from whatever cause. Thirdly, a belief in equality and the 'classless society', and especially a desire to give the worker his 'just' rights and a responsible status at work. Fourthly, a rejection of competitive antagonism, and an ideal of fraternity and co-operation. Fifthly, a protest against the inefficiencies of capitalism as an economic system, and notably its tendency to mass unemployment. The first three formed the basis of socialism as 'a broad, human movement on behalf of the bottom dog'.<sup>1</sup> The

<sup>1</sup> Cole, *A Short History of the British Working-Class Movement*, Vol. III, p. 22.

first and last were censures on the material results of capitalism; while the other three stemmed from an idealistic desire for a just, co-operative and classless society.

(I have listed only the social and economic aspirations. But of course underlying them, and taken for granted, was a passionate belief in liberty and democracy. It would never have occurred to most early socialists that socialism had any meaning except within a political framework of freedom for the individual. But since this political assumption is shared by British Conservatives as well as socialists, no further reference is made to it.)

As thus formulated, even these basic aspirations are not all equally relevant to present-day society. Some are expressed in language adapted to conditions that no longer exist, and in particular are too negative in character. This is natural, for they were, in large part, a reaction against the actual results of pre-war capitalism; and with two million unemployed, widespread poverty and malnutrition, and appalling slums set against a background of flamboyant wealth amongst the richer classes, it was natural that the negative desire to abolish evils should outweigh more positive and detailed aspirations.

But to the extent that evils are remedied and injustices removed, negative statements become less and less appropriate. And they are seen to be inappropriate by the electorate, a growing section of which has no recollection of unemployment, or poverty, or dole-queues, and finds Labour propaganda which plays on the themes and memories of the 1930s quite incomprehensible. To a population which has lost its fears, and now has every hope of a rapidly rising standard of living, a negative protest against past wrongs is merely a bore.

Thus even when we go back to the basic aspirations, we still find the same, welcome, difficulty that the pace of change has overtaken the doctrine, and a re-formulation is needed. Of course if a Tory Government were to re-create all the old evils, matters would be simple. New thinking could be set aside 'for the duration', and negative statements would again suffice. But it is not likely that the Tories will act so recklessly, or that mere periodic counter-attacks to regain lost positions will remove the need for a map of the new terrain.

How should we re-formulate these aspirations to-day in such a way as to preserve their basic emotional and ethical content,

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yet discarding what is clearly not germane to present-day conditions? Of the original five, the first and last are rapidly losing their relevance in a British context. Such primary poverty as remains will disappear within a decade, given our present rate of economic growth; and the contemporary mixed economy is characterised by high levels both of employment and productivity and by a reasonable degree of stability. In other words, the aspirations relating to the economic consequences of capitalism are fast losing their relevance as capitalism itself becomes transformed.

But the remaining three more positive ideals, described above as stemming either from a concern with the 'bottom dog', or from a vision of a just, co-operative and classless society, have clearly not been fully realised. No doubt we should phrase them differently to-day, but their basic content is still perfectly relevant. We have plenty of less fortunate citizens still requiring aid; and we certainly have not got an equal or classless society, nor one characterised by 'co-operative' social relations.

### IV *The Co-operative Aspiration*

I propose to discuss the co-operative aspiration first, in order to get it out of the way – not because I think its content less important, but simply because I find it impossible to reach a definite conclusion about its relevance in contemporary conditions.

Most people would agree that Britain to-day is a markedly less competitive society than it was a century ago. This is especially true of industry; and it was industrial competition which drew down the strongest strictures of the early anti-competitive socialists. Such competition is now both more limited in extent, and less fierce in character; and business attitudes generally have taken on the more restrained and amenable character described in Chapter I.

But the change goes wider than this, and reflects a deep-seated change in the accepted ideology – from an uncompromising faith in individualism and self-help to a belief in group action and 'participation', and collective responsibility for social welfare. The consequence is a pronounced tightening of the conventional

rules of competitive behaviour. A century ago competition was virtually unrestricted. It justified colonial aggression, child-labour, sweated workshops, violence against labour leaders, a callous ruthlessness towards competitors, and even interference with personal liberty. All these to-day would be excluded from the bounds of what was conventionally, and often legally, permissible. The moral consensus of opinion has altered; and the aggressive instinct has been civilised and circumscribed.

There is now probably no country in the world where competition is less aggressive, or individual exertion more suspect. The worker who exceeds his norm or works too hard, the employer who embarks on a price-offensive, are thought guilty at the least of not playing the game, and probably of flouting the principle of fair shares and showing disloyalty to comrades. To a large extent, security has replaced competition as the guiding rule of economic conduct. At any rate, it could scarcely be denied that the intensity of competition was significantly less.

The *extensive* frontier of competition may, it is true, have widened. But this, ironically, is partly the result of action and pressure by the Left, since it follows from the progressive equalisation of opportunities for advancement. This inevitably increases competition; and indeed the absence of competition for the highest posts is incompatible with democracy, and consistent only with a hierarchical caste or feudal society offering no possibility of social mobility.<sup>1</sup> Thus the antithesis of competition is not always co-operation – it may be social ossification, and the denial of individual rights. This clearly raises an awkward potential conflict of values.

The extent of competition, or at least of the individual pursuit of differential rewards, may have widened in another respect. A century ago it was mainly the entrepreneur whose income fluctuated with individual effort or hard work. But since then, as the last chapter pointed out, there has been a growing tendency for incomes to take the form of differential rewards for differential effort. The purpose of such differentials may be partially frustrated by the counter-force of group solidarity; but their existence must do something to foster individualistic attitudes and the motive of personal gain. But here again there may be a conflict of values, since differentials may be good for economic growth and the

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standard of living. Once again, the antithesis of competition might be not co-operation, but economic stagnation.

Thus matters look a good deal less clear-cut than when the co-operative ideal was first formulated over a century ago. On the one hand, the excesses of competitive individualism have been significantly moderated; on the other hand, competition is seen to have certain compensating advantages, not previously much discussed. However, let us consider the implications of endeavouring to realise the ideal more fully. There appear to be two spheres in which it might be relevant: personal motives and relations at work.

First, people should work not for private material gain, but for the social good – either because they will then find a greater self-fulfilment and so be more contented, or because they will work better and harder, or simply because it is held to be ethically good that self-regarding instincts should be suppressed, and other-regarding instincts encouraged.

This is partly a factual statement, that people *do* work harder and feel happier if certain incentives are present: and partly a normative statement, that people *should* work for certain motives and not for others. Unfortunately the first is difficult to prove or disprove, and the second hard to express in concrete, practical policies.

It is clear that under the right circumstances the consciousness of working for a common purpose can be an extremely strong incentive, capable of eliciting exceptionally hard and contented work. In British aircraft factories after Dunkirk, in voluntary societies or charitable bodies, in village development schemes in India, or co-operative farms in Israel, people do appear to find a fulfilment and satisfaction in working for a common goal, and in consequence work better, and feel fewer grievances.<sup>1</sup>

But it is equally clear that people can work both well and contentedly for personal material gain under a system where rewards vary with individual effort. This is the case, for example, in a progressive and efficient private firm operating an elaborate system of bonus payments and incentives.

Evidently both motives can, under the right conditions, work extremely well. So far as the second is concerned, the essential

<sup>1</sup> v. W. Arthur Lewis, *The Theory of Economic Growth* (Allen and Unwin, 1955), Part III, Chapter 1, for an excellent discussion of this point.

condition in the normal case is probably an efficient management, pursuing an enlightened labour policy.<sup>1</sup> But the difficulty is to create the conditions under which the 'social' motive can operate effectively for more than a short emergency period. It is certainly not enough to tell people that they are working for the public good, nor even that they should in fact be working for the public good. They must see it, and feel it, themselves; and it is not easy to create the institutional framework within which they will.

This may be seen from the experience of nationalisation. The miners and railwaymen are in fact working for the public good as well as for themselves, and for an extremely urgent public good; and there are no shareholders or private profits to 'expropriate' any of the fruits of their labour. Yet this appears to make only a limited psychological difference; and neither industry has a contented atmosphere. This might be a matter of scale and distance. The villager working on a community scheme, and building a new road for his village, can see the result with his own eyes, can see his own personal contribution as being significant, and can see that his own community is in fact deriving the benefit. The miner cannot see the total result of his efforts, which is reflected merely in periodic output figures announced from Hobart House: he may think that his own contribution to the total result is insignificant; and he may be vague as to how the benefits are distributed. Thus he feels, it might be argued, no sense of personal indispensability; the scale is too large, and the distances too remote.

Yet there might, for all we know, be a quite different explanation – that the average miner and railwayman are not sufficiently interested in the public good or the total result. It could plausibly be maintained that in these two industries, much more, for example, than in mass-production factories, the worker is exceptionally well aware of his personal role and contribution – the crew of a train for obvious reasons, and the miner (at least at the face) because of the institution of the checkweighman. Yet this awareness, and such 'social' incentive as may follow from it, may be outweighed by other incentives or emotions – local group solidarity, resentment over wages or conditions, dislike of the local management, disappointment (in the case of the railways) with

<sup>1</sup> v. Chapter XVI, Section III, for a further explanation of this point.

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the form of nationalisation and the performance of the Transport Commission; and so on.

All it seems possible to say in practice is (a) that people can work hard and contentedly for personal (or family) gain,<sup>1</sup> (b) that people can work badly and discontentedly even when they are working for the common good, (c) that no doubt they work best of all when both motives are present, but (d) if it is desired, on moral grounds, to effect a general conversion from self-regarding to other-regarding motives, this will be hard to achieve, since it might require either a change in the basic 'social character' or the creation of a largely novel institutional framework. This conclusion was of course reached at an early stage by the Soviet rulers, who quickly gave up the struggle and simply introduced the old 'capitalist' incentives, under the new label of 'Stakhanovism', in an extreme and indeed brutal version.

One cannot say that either of these means to a general conversion is strictly impossible, only that they are rather unlikely. A change in social character, altering the underlying balance between self-regarding and other-regarding instincts, cannot, I suppose, be ruled out as a matter of theory. Social anthropology and group psychology have shown that motivation and behaviour are not immutable, or biologically given, but to some (unknown) extent 'culturally' determined. But of course we know too little about the determinants to say anything very useful when it comes to practical policy.

Nor is it much easier to alter the institutional framework in such a way as to give more outlet to *existing* social motives. Clearly public ownership is not enough. We might even require a complete devolution and fragmentation of economic activity down to a local scale. Of course this simply will not happen, and could not work, in an advanced industrial economy. It is not merely that the result would be a catastrophic fall in living standards, but that one cannot turn back history in this way, or reverse the underlying social and technological trends. Some devolution within the present framework is no doubt possible; and enlightened

<sup>1</sup> Indeed, material incentives for the worker are exceptionally strong to-day, since both the psychological expectation and the physical possibility of rising to an entirely new plateau of consumption, characterised by the ownership of expensive consumers' durable goods and reached with the help of hire-purchase, now exist on a wide scale. So strong are these incentives that Trade Union leaders, who would like to reduce overtime, often cannot persuade their members to forego it.



managements, by increasing attention to group activity and to fostering a social spirit, will gradually do something to encourage the desired incentives. But I cannot see what *national* policy a Labour Government could have for inducing a general and deep-seated, as opposed to local and marginal, change in personal motives.

The second sphere in which the co-operative ideal is relevant (though it is closely linked with the first) is that of relations at work. The early socialists wanted people to work, not as separate individuals, but communally and co-operatively, organised in groups (co-operative guilds or communes) inspired with an altruistic collective purpose. To-day, since self-governing guilds are now impracticable, we should no doubt interpret this in terms of joint consultation or joint participation, that is, of groups within a large industrial unit (whether public or private) identified with, and working co-operatively for, the purposes of that unit.

But we now see that the difficulty is often not, as the early socialists thought it would be, to resolve a clash between individual and collective instincts, or to persuade people to form groups and adopt group standards. The human instinct towards gregariousness is so strong that groups form automatically, in industry as elsewhere, and quickly establish their own informal leaders and standards of behaviour.

The difficulty is that these natural, self-created groups may be far from expressing the co-operative ideal. It is not merely that groups may develop (as anyone with experience of small political or religious or refugee groups will know) extremely disagreeable characteristics – intolerance of dissent, excessive conformity, arbitrary cruelty in the exercise of their ultimate power to ostracise (in modern language, send to Coventry) : but even if they do not, their purpose and function may be in no way communal or altruistic so far as objectives and institutions *outside* the group are concerned. On the contrary, their function and behaviour may be wholly selfish, and the element of identification or co-operation with the firm or industry entirely lacking. Thus they may, as industrial research has demonstrated, serve to restrict output, not to expand it: to worsen relations with management, not to improve them: to foster resentment and discontent, instead of harmony and a sense of common purpose.

The problem is to harness the group instinct in such a way as

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to create the desired social and co-operative atmosphere – to cause the natural groups to identify themselves with the larger unit in which they work. Unfortunately we scarcely know in detail how this is to be done. It does not follow automatically either from nationalisation, as the mines and the railways show, or from setting up joint consultation, which may simply impose a formal and rootless group on top of, and at cross-purposes with, the real groups below.

Indeed if we examine industry, we find a bewildering variety of experience which makes it exceedingly hard to draw conclusions.<sup>1</sup> We can find firms with a loyal and contented labour force, yet with no formal 'participation' of any kind: others with elaborate schemes of joint consultation, yet with a sullen, unhappy labour force: and yet others where good relations do seem to depend on the existence of joint bodies. All we can say is that institutional change by itself is not enough: and that whether joint participation does or does not create a co-operative atmosphere depends on social forces on the exact nature of which industrial psychologists are not agreed – at any rate not to the extent that any clear national policy emerges.

This does not mean, of course, that there is no case for altering relations within industry, or for giving the worker more power. There is such a case. But it rests not on propositions about fraternity or social contentment, which our present knowledge does not justify, but on statements about social justice, the rights of workers, and equality. It is therefore subsumed, and so discussed in later chapters, under the aspiration towards social equality.

To sum up, the co-operative aspiration has at least been partially fulfilled, in that society is much less aggressively individualistic and competitive than a century ago; and indeed the trend toward 'sociability' is now so strong that we are more likely to be deprived of solitude than company. On the other hand we do not yet live in a co-operative Utopia. Most people still work mainly for personal gain, and not for the social good; and the ideal of communal, co-operative participation has scarcely begun to be realised in industry.

Now there are one or two specific directions in which a clear choice exists between more or less competition – most notably

<sup>1</sup> *v.* Chapter XVI for a further discussion of this point.

in education, separately discussed in a later chapter. There are one or two further directions in which a less clear choice exists between more or less communal activity, e.g. housing development and town planning. Furthermore, the *sense* of co-operation in industry may spread as management grows more progressive and enlightened; and a gradual increase in equality will itself, as is argued in Chapter X, still further diminish the intensity of competition. But beyond this, at our present state of knowledge, we cannot go. We cannot assert definitely what would be the effect either on personal contentment, or attitudes to work, or the quality of our society, of a wholesale effort to suppress the motive of personal gain, or to elevate collective at the expense of individual relationships: nor can we even begin to see a feasible institutional framework within which these changes could be brought about: nor can we be sure that even if they were practicable, they might not lead to serious losses in other directions, such as privacy, individuality, personal independence, equality of opportunity, or the standard of living.

While, therefore, I realise that as a matter of verbal precision the co-operative ideal is certainly embraced by the word 'socialism', and while I accept that it would clearly be in some sense 'better' if there were a more general awareness of a common social purpose, I do not feel able, in what is intended to be a reasonably definite and practical statement of socialist aims, to include this as part of the goal. I shall no doubt be corrected by those with clearer views.

## v *The Welfare and Equality Aspirations*

The two remaining aspirations – the concern with social welfare, and the desire for an equal and classless society – still have a perfectly clear relevance. The first implies an acceptance of collective responsibility and an extremely high priority for the relief of social distress or misfortune, in contrast to the much lower priority which it would receive in a 'free' economy guided mainly by an individualistic philosophy. This is the contemporary version of the traditional welfare and social-service philosophy of the Labour movement, and of the instinct to side automatically with the less fortunate and those in need.

There is plenty of residual social distress in Britain. It is now caused less by primary poverty, though this can still be found, than by secondary poverty, natural misfortune, physical or mental illness, the decline in the size of the family, sudden fluctuations in income, and deficiencies in social capital. These last, for all the high level of average personal spending, are still appalling – ugly towns, mean streets, slum houses, overcrowded schools, inadequate hospitals, under-staffed mental institutions, too few homes for the aged, indeed a general, and often squalid, lack of social amenities.

The relief of this distress and the elimination of this squalor is the main object of social expenditure; and a socialist is identified as one who wishes to give this an exceptional priority over other claims on resources. This is not a matter of the overall vertical equality of incomes; the arguments are humanitarian and compassionate, not egalitarian. It is a matter of priorities in the distribution of the national output, and a belief that the first priority should always be given to the poor, the unfortunate, the 'have-nots', and generally to those in need; from which follows a certain view about collective social responsibility, and thence about the role of the state and the level of taxation. This represents the first major difference between a socialist and a conservative.

The second distinctive socialist ideal is social equality and the 'classless society'. The socialist seeks a distribution of rewards, status, and privileges egalitarian enough to minimise social resentment, to secure justice between individuals, and to equalise opportunities; and he seeks to weaken the existing deep-seated class stratification, with its concomitant feelings of envy and inferiority, and its barriers to uninhibited mingling between the classes. This belief in social equality, which has been the strongest ethical inspiration of virtually every socialist doctrine, still remains the most characteristic feature of socialist thought to-day.

It is significant that these aspirations are not now primarily economic in character. The worst economic abuses and inefficiencies of modern society have been corrected; and this is no longer the sphere, as it has been for the greater part of the life of modern socialism, in which reforms are most urgently required. It is true, of course, that Britain still faces a serious economic problem – the problem of external solvency. But this is a problem common to both parties; and so far as specifically socialist policy is concerned, the battle is not mainly on this front.

It is also obvious that these ideals are much less pertinent to Britain, than to Britain's relations with the outside world. It is in the backward nations that the real poverty exists; and the inequality between those nations and Great Britain is far more glaring than the inequality between rich and poor in Britain. That is why the most obvious fulfilment of socialist ideals lies in altering not the structure of society in our own country, but the balance of wealth and privilege between advanced and backward countries. This I do not discuss, for this book, as I made clear in the Preface, is about the British domestic scene; and even within Britain these ideals are not yet fully realised. But socialists must always remember that inter-national now surpass inter-class injustices and inequalities.

## VI *Is Socialism Still Relevant in Britain?*

The ideals have so far merely been stated. They have not been justified in detail, nor any evidence adduced to show that their further fulfilment would definitely improve our society. All that has been argued is that they constitute 'socialism' in the only legitimate sense of the word, and that they are not embodied in our present society to such an extent that most people would describe it as socialist.

A few people would, it is true, so describe it – not explicitly, but by implication. That is, they take the view that we are at, or anyway in sight of, the final objective. This of course is a plausible view only if we select those more modest aspirations which have largely been fulfilled, and define these, and these alone, as socialism. Thus if we were to say, as G. D. H. Cole once did before the war, that 'the Socialist has two main enemies to fight – poverty and enslavement',<sup>1</sup> it would follow that we now nearly have socialism in Britain, since we have very little poverty or enslavement.

Examples of such definitions can be found. Perhaps the most striking is the Frankfurt Manifesto of the reborn Socialist International in 1951, in which (after a preamble so vague as to be almost meaningless) the whole emphasis is placed on democratic planning, which is regarded as the basic condition of socialism.

<sup>1</sup> *The Simple Case for Socialism*, p. 19. I do not of course mean that Professor Cole himself defined socialism in this way.

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The purposes of planning are defined as 'full employment, higher production, a rising standard of life, social security and a fair distribution of income and property' – purposes which (at least if one omits the one word 'property') are either not peculiar to socialists, or else are largely achieved already in Britain and Scandinavia.

Now it is true that the planned full-employment welfare state, which has been the outcome of the first successful spell of Labour government, is a society of exceptional merit and quality by historical standards, and by comparison with pre-war capitalism. It would have seemed a paradise to many early socialist pioneers. Poverty and insecurity are in process of disappearing. Living standards are rising rapidly; the fear of unemployment is steadily weakening; and the ordinary young worker has hopes for the future which would never have entered his father's head. There is much less social injustice; the economy works efficiently; and the electorate, as the Labour Party discovered at the last election, is in no mood for large-scale change, and certainly not for the complete overthrow of the present system. Many liberal-minded people, who were instinctively 'socialist' in the 1930s as a humanitarian protest against poverty and unemployment, have now concluded that 'Keynes-plus-modified-capitalism-plus-Welfare-State' works perfectly well; and they would be content to see the Labour Party become (if the Tories do not filch the role) essentially a Party for the defence of the present position, with occasional minor reforms thrown in to sweeten the temper of the local activists.

Yet this is not socialism. True, it is not pure capitalism either; and it does fulfil some part of the traditional socialist aspirations, and to this extent has socialist features. Yet it could clearly be a great deal more socialist than it is – not, as people sometimes think, because it now has only 25% public ownership and is not fully planned down to the minutest detail, any more than Soviet society is more socialist because it has 100% public ownership and complete state planning: but simply because the traditional socialist ideals could be more fully realised than they are. To put the matter simply, we have won many important advances; but since we could still have more social equality, a more classless society, and less avoidable social distress, we cannot be described as a socialist country.

The detailed case for fulfilling the remaining aspirations, that is, for moving towards socialism, is argued in Parts Three and Four, where the two aspirations are considered separately; while Part Five discusses their economic implications.

But one may at this stage briefly summarise, without attempting to justify, the reasons for wanting to move forward, and to alter what is admitted to be a prosperous and generally tolerable society; and the value judgments which underlie this wish. Lord Attlee recently remarked, looking back on his early days, that 'I joined the socialist movement because I did not like the kind of society we had and I wanted something better'. Why should anyone say the same to-day?

There are, I believe, three answers. First, for all the rising material standards and apparent contentment, the areas of avoidable social distress and physical squalor, which were referred to above, are still on a scale which narrowly restricts the freedom of choice and movement of a large number of individuals. Secondly (and perhaps more intractable), we retain a disturbing amount, compared with some other countries, of social antagonism and class resentment, visible both in politics and industry, and making society less peaceful and contented than it might be. Thirdly, the distribution of rewards and privileges still appears highly inequitable, being poorly correlated with the distribution of merit, virtue, ability, or brains; and, in particular, opportunities for gaining the top rewards are still excessively unequal.

This significant residue of distress, resentment, and injustice affords a *prima facie* justification for further social change – as I think, and shall argue, in a socialist direction. It may not justify the same *saeva indignatio* as mass unemployment and distressed areas before the war – rather a purposeful, constructive, and discriminating determination to improve an already improved society. But the belief that further change will appreciably increase personal freedom, social contentment, and justice, constitutes the ethical basis for being a socialist.

PART THREE

THE PROMOTION OF WELFARE





## VI

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### THE COST OF SOCIAL WELFARE

#### I *The Beveridge Revolution*

THE first ideal was defined as the acceptance of collective responsibility and an exceptionally high priority for social welfare. I deliberately treat this first, for although the subject-matter might seem more prosaic than that of the next section on class and equality, I believe it to be more urgent, and more important, in terms both of justice and contentment.

This ideal raises the whole question of the role of the social services. It would, until recently, have been generally accepted that these had one simple purpose, namely the relief of poverty. But this, of course, is a purpose open to many different interpretations, and capable of justifying widely varying degrees of mean or generous provision. The history of the social services is the story of the gradual liberalisation of the definition of poverty: of the progress from a rigid destitution approach to a wider concept of a national minimum standard of life. After receiving its first great impetus from the Liberal Government of 1906, this progress continued, though erratically and not without opposition,<sup>1</sup> until it reached its culmination in the Beveridge Report and the subsequent Labour legislation.

<sup>1</sup> The Webbs, for example, had no patience with Lloyd George's reforms of 1908-11. 'To us', wrote Beatrice, 'the compulsory insurance with automatically distributed money allowances, during illness or worklessness, with free choice of doctor under the panel system, would not and could not prevent the occurrence of sickness or unemployment. Indeed, the fact that sick and unemployed persons were entitled to money incomes without any corresponding obligation to get well and keep well, or to seek and keep employment, seemed to us likely to encourage malingering and a disinclination to work for their livelihood.' (*Our Partnership*, Longmans, 1948, p. 479.)

It was the Beveridge Report<sup>1</sup> which gave the most complete and explicit statement of the philosophy of the national minimum. The social services had one prime object: the abolition of want. This object was to be achieved by isolating, not simply destitute individuals as the Poor Law did, but those entire categories of persons, or periods in an individual's life, which were commonly the most vulnerable to the onset of poverty.<sup>2</sup> A presumption of need having been established, benefits were to be paid to these categories as of right, without a means test, at a flat-rate subsistence level unrelated to income; and the insurance principle was made a cardinal part of the scheme precisely because it symbolised the citizen's 'right' to receive a corresponding benefit. National Assistance, relying on a test of means, was to be purely a defence of last resort for those few who 'fell through the meshes' of the main proposals.

Meanwhile the constructive services of health and education were to be built up alongside the system of social security; and for the first time the principle was accepted that they should be provided free to all, not at a minimum level, openly inferior to the corresponding private services, but at the highest level which the community could afford. Full employment would then crown a structure of public services wholly adequate to abolish want and guarantee to each citizen a decent minimum standard of life.

There was, it is true, a certain contradiction here, which was never properly faced or resolved. If the object of the social services is the abolition of want, then an income test to establish the existence of want is a logical corollary. If, on the other hand, payment of benefit regardless of means is elevated into a principle, then the object cannot be simply the elimination of want. Evidently some new and different aim has crept in; but it was never made clear, either in the Report or in the debates which followed, just what this was. However, for the moment this contradiction could be considered potential rather than actual. The unconditional benefits were restricted to obviously needy categories; the aim could still be reasonably presented as the unequivocal one of relieving poverty; and it was not likely that many would receive help who did not need it. One may still regard the Beveridge Report, therefore, as the most thorough and

<sup>1</sup> *Social Insurance and Allied Services* (Cmd. 6404).

<sup>2</sup> *op. cit.*, p. 7.

## THE COST OF SOCIAL WELFARE

systematic expression of the 'poverty' approach to the social services.<sup>1</sup>

For once a report was followed by effective action. Between 1946 and 1949 the whole field of social insurance and allied services was re-organised, co-ordinated, and extended in a series of major legislative acts, whose profound influence in reducing poverty was described in Chapter II; and a greater social advance was made than in any corresponding period in British history. Primary poverty seemed largely to have disappeared; and people hailed the arrival of the 'Welfare State' as though finality had been attained, and the social services had reached their ultimate form. The Beveridge Report was acclaimed as 'the inauguration of a new relation . . . of man to man, and of man to the State', and as enshrining 'the ethic of the universal brotherhood of man'; its implementation had 'laid the foundations of a new conception of society'.<sup>2</sup>

### II *The 'Crisis' in the Social Services*

Yet within a few years the talk was all of the 'crisis' in the social services; and everywhere there was heart-searching and criticism. What went wrong?

First, it proved extremely hard to hold national insurance benefits at a subsistence level. Originally fixed at what purported to be such a level in 1946, they quickly fell below it with the post-war rise in prices; and then fluctuated between well below it, and just below it, as periodic adjustments to the rates fought a defensive battle against the fall in the value of money. But for most of the period they were at least significantly below it; and the result was an increasing recourse to National Assistance. By 1955 the Assistance Board was paying over 1½ million allowances, covering one-quarter of those drawing insurance benefits. This was a very different picture from what had been expected.

Secondly, indiscriminate consumer subsidies, not envisaged in

<sup>1</sup> It is interesting that Beveridge did not regard the social services, as many socialists have done, as a means of redistributing income vertically between social classes. His limited aim of abolishing want could be achieved, as he made clear, by a horizontal redistribution of income *within* classes (op. cit., pp. 165-7).

<sup>2</sup> *Beveridge and His Plan*, by Janet Beveridge (Hodder and Stoughton, 1954), pp. 7 and 168.

the Beveridge Report nor (in the major case of the food subsidies) originally conceived as a social service at all, expanded rapidly, and soon almost equalled in cost all the 'Beveridge' payments and selective welfare services. In 1950 they amounted to £468 millions, against £645 millions for all insurance benefits, national assistance, family allowances, scholarships, school meals, and maternity services. Given the pressure on the Budget, this growth in subsidies appeared as a major reason why social insurance benefits could not be held at subsistence level.

Thirdly, once the principle of the highest possible standards was accepted, the cost of providing services in kind, and notably health, completely free, began to appear potentially alarming. It is true that most of the criticism of the 'rapidly increasing' current cost of the Health Service was quite mistaken;<sup>1</sup> but people were disturbed by certain (allegedly) expert prognostications about the likely future cost. It was against this background that the irritable controversy over health charges broke out in 1951.

These developments raised two separate issues. The first was ideological, and concerned the ultimate purpose of the social services. It was observed that whereas the main cash benefits had only maintained their share (of 5½%) in personal pre-tax incomes between 1937-8 and 1950-1, benefits in kind and subsidies had more than doubled their share of gross national income (from 5½% to 11½%).<sup>2</sup> This altered balance between benefits in cash and in kind seemed to denote a radical departure from the Beveridge approach, and suggested to some critics that the abolition of want had given way, as the rationale of social expenditure, to a new concept of 'socialised' income, under which an increasing proportion of the national income would be collected in taxation by a paternalistic state, and redistributed (largely to the same people) in whatever form appeared most beneficial. This ideological argument is discussed in the next chapter.

Secondly, fears were increasingly expressed about the burden of costs, both immediate and prospective. How far were these justified?

<sup>1</sup> The Service was actually taking a slightly *diminishing* proportion of national resources each year from 1948 to 1954 (*v. Report of the Committee of Enquiry into the Cost of the National Health Service*, Cmd. 9663, Part I).

<sup>2</sup> *Income Redistribution and Social Policy*, ed. Alan T. Peacock (Cape, 1954), Table V, p. 151.

## THE COST OF SOCIAL WELFARE

The current expenditure of all public authorities on social services (including food subsidies) rose from 9.2% of gross national income in 1938-9 to 13.7% in 1951-2; excluding food subsidies, the rise was from 9.2% to 11.5%.<sup>1</sup> Thus including subsidies the social services increased their share in the national income by nearly one-half. But this distinctly exaggerates the increase. Apart from subsidies, much the largest proportionate rise was in the health service, where the increase in public expenditure did not represent an equivalent increase in total expenditure on health, since some part of it was merely transferred from private to public account after the introduction of the National Health Service. Cash benefits rose by very much less – social insurance benefits and family allowances together accounted for only the same share of pre-tax personal income in 1951-2 as in 1938-9. The fiscal problem posed by the social services is shown by the fact that as a proportion of all central government expenditure they rose (including subsidies) from 28% in 1938-9 to 40% in 1950-1, before falling to 31% in 1953-4.

These were substantial increases. Yet they must be judged comparatively modest in the light both of the declared intention of the Labour Government to construct a Welfare State, and of the constant chatter about the 'crushing' burden of social expenditure. It would be hard to deduce from these figures that the social services were making wholly excessive claims on resources, or could properly be held responsible for successive balance of payments crises. Of course they did present a problem, both economic and fiscal, to successive Chancellors, arising from the fact that their expansion did not take place in isolation, with other things remaining constant, but at a time when the economy was loaded with other exceptionally heavy claims following on World War II and the Korean War. But there was no justification for singling out the social services as the main or only cause of trouble, especially as some proportionate increase in their cost followed almost automatically from the relative growth in numbers of the main beneficiary categories. There were one million more children than before the war, and 1½ million more old people.

But the rise in expenditure was moderate only because it was

<sup>1</sup> P.E.P., *Planning*, Vol. XX, No. 354, June 1953, 'The Cost of Social Services, 1938-1952'. Including gross capital expenditure, the rise was from 9.8% to 16.7% (Peacock, loc. cit.).

firmly held down in the face of strong demands, both social and political, for higher spending, and at the expense of real hardship. National insurance benefits continually fell below subsistence level: ceilings were imposed on both health and subsidy expenditure; and the education programme was heavily restricted. Moreover it was clear, looking ahead, that fresh claims were piling up. What alarmed most people, therefore, was less the actual cost in the post-war period, than the prospective cost in the future.

### III *The Effect of an Ageing Population*

Discussions of the future cost have usually been dominated by the prospect of a rapidly ageing population. According to the Phillips Committee, the number of elderly people in Britain (men over 65 and women over 60) is likely to rise from 6.6 millions in 1951 to 9.5 millions in 1979, or from 13.5% of the population to 18.2%.<sup>1</sup> It was this trend which caused the main anxiety.

But it was often forgotten that so far from being a sudden new phenomenon, the trend had already been observable for more than 50 years. Indeed the rate of change in age-composition is likely to be less rapid in the next 20 years than it has been over the past 20. We are now more than half-way between the age-proportions which characterised the late Victorian era, and the proportions to which we shall eventually settle down. The average age, due to rise from a present  $35\frac{1}{2}$  to 39 over the next 25 years, has already risen from 27 in 1891;<sup>2</sup> and the ratio of elderly to total population, due to rise to 18%, has risen from  $6\frac{1}{2}$ % to nearly 14%. Thus a large part of the burden has already been shouldered, and its effects on the standard of living absorbed.

And of course it will not be the future age-composition (expected to remain fairly stable from 1980 onwards) which is demographically peculiar. It was the late nineteenth-century age-structure which was (by contemporary Western standards) abnormal, being the product of a still relatively high mortality

<sup>1</sup> *Report of the Committee on the Economic and Financial Problems of the Provision for Old Age* (Cmd. 9333), Table IV and Appendix III. (Unless otherwise stated, the figures in the next few paragraphs are taken from this Report.)

<sup>2</sup> W. A. B. Hopkin, 'The Economics of an Ageing Population', *Lloyds Bank Review*, January 1953.

rate which kept down the numbers of the old, combined with a rapid rate of increase in population. The average age was therefore unusually low. In the last 70 years both these influences have altered: the mortality rate has dropped sharply, while the birth rate has fallen to the point where the population now shows little growth. The average age, in consequence, has risen. But all that is occurring is a long-drawn-out process of adjustment, now half over, to the age-structure normal for a stable population.

Nor is this trend to be deplored. It could only be reversed either by a rise in the mortality rate, or by a return to a Victorian rate of population growth. The first is obviously not to be desired; while the second might well create a serious problem of food and material supplies in a country so ill-endowed by nature as our own, with a worsened prospect of rising living standards.

Most of the discussion of the economic consequences of the change has in any case been rather beside the point. It has concentrated on the question of total output and resources, and the apparent threat to the standard of living from the change in the relative numbers of producers and consumers, or active and dependent age-groups. This change is not in fact large. The dependent age-groups consist not only of the elderly, but also of children under 15; and the latter are expected to *fall* as a proportion of total population by 1979 from 22% to 20%, thus partially offsetting the rise in the elderly group. Taking the two influences together, the proportion of active age-groups in the total will show only a modest decline from 64% to 62%.

This of course is quite insignificant in relation to the likely rise in productivity. If the same proportion of each age-group continues in employment, the number of producers per consumer, and hence (if nothing else changed) the average standard of living, would fall by  $3\frac{1}{2}\%$ .<sup>1</sup> But a rise in the gross national product of  $1\frac{1}{2}\%$  per annum, which is an exceedingly modest figure, would increase *per capita* income over the same period by 50%, and a continuation of the present rate of growth by nearly 80%.

The real problem is a different one, namely the 'transfer' problem. The rise in output due to higher productivity does not accrue direct to the elderly, since they (for the most part) are not at work. It follows that if their total income is to be increased, owing to the rise in their numbers, then some part of the rise in

<sup>1</sup> Hopkin, op. cit.



output and incomes must be taxed away from its recipients amongst the working population, and transferred to the pensioners. Thus it is not enough to show that ample *physical* resources exist to finance the increased expenditure; since this will fall on public funds, it must also be shown that the transfer, or taxation, problem can be solved.

There are, moreover, two other reasons why the fiscal problem is not accurately measured by calculations in real terms, i.e. in terms of the ratio of producers to consumers. First, the figures showing only a small decline in this ratio are a balance of a rise in the numbers of the old partially offset by a fall in the numbers of the young. But the latter movement, quite apart from the fact that its magnitude is smaller, may not even afford an equivalent *per capita* relief to the Budget, since some (though not all) experts calculate that the fiscal cost of an old-age pensioner is higher than that of a child under 15.<sup>1</sup>

Secondly, public expenditure on old-age pensions is due to rise much more than proportionately to the numbers of the old, owing to the steady increase in the degree of eligibility for the pension as the 1946 Act gradually takes full effect.<sup>2</sup> Whereas the 'real' economic problem of the changing age-structure is only the continuation of a long-established trend, the fiscal problem represents, in part at least, a sharp move to a wholly new situation consequent on the post-war National Insurance scheme. As a result, pensions expenditure, at given rates of benefit, will rise  $2\frac{1}{2}$  times as fast as the numbers of the old.

Of course if the rise in public expenditure, including pensions, were to proceed only at the same rate as the rise in total output, there would be little problem; some part of the rise in incomes associated with the rise in output accrues automatically to the Exchequer through a higher yield of existing taxes, and this automatic increment would then be sufficient to finance the extra spending<sup>3</sup> (though any reductions in taxation as a proportion of

<sup>1</sup> v. F. W. Paish and A. T. Peacock, 'Economics of Dependence (1952-82)', *Economica*, November 1954.

<sup>2</sup> It is often forgotten how many old people are still ineligible for a contributory pension by virtue of not having paid any, or sufficient, contributions before the present universal scheme came into force. But their ranks are, of course, being steadily thinned by death; and whereas by 1979 the number of people of pensionable age will have grown by 40%, the number of pensioners will have grown by over double this figure.

<sup>3</sup> Indeed, it would be more than sufficient, since marginal taxation is higher than average taxation, so that a higher proportion of an increase in income accrues to the Exchequer than of existing income.

income would be ruled out). But if, as might be inferred from the pensions prospect, expenditure rises more than proportionately to output, then the community as a whole must pay a higher proportion of its incomes (whether or not this actually requires higher tax *rates*) to the Exchequer than it does to-day.

This raises a definite problem, although one for some reason often dismissed on the Left as though it were of no importance. The reasons why, in practice, it is important, are set out in detail in the later economic chapters. First, the economy is already running flat out. Yet there are many unsatisfied claims on resources, of considerable urgency, such as higher home and foreign investment. If these are to be accommodated without inflation, they may well require an increase in public savings, and so compete directly with the claims of higher social expenditure. Secondly, since taxation is already high, taking over 30% of gross national income, further large increases, while not entirely out of the question, might in practice prove rather difficult – they could, for example, involve the defeat of the government, or create (as in 1951) a fatal split in the governing party, or be rendered ineffective as a means of reducing consumption by the reactions of taxpayers.<sup>1</sup> Thirdly, even to the extent that increases are feasible, we cannot now extract sufficient from the rich alone to finance a large additional social expenditure, the burden of which would therefore fall mainly on the working class itself (and be even more electorally unpopular for that).

Although, therefore, socialists should always be more willing than Conservatives to accept high or increased taxation in the interests of social spending, nevertheless the transfer problem cannot simply be shrugged off; and the problem of future costs must be considered in the light of its implications for taxation, as well as for the national average standard of living.

#### iv *The Cost of State Pensions*

Expenditure on retirement pensions, at present rates of benefit, will rather more than double over the next 25 years, from about £370 millions in 1954 to just under £800 millions in 1979. This

<sup>1</sup> *v.* Chapter XIX, Section V.

is due partly to the growing numbers of old people, and partly to the steady increase in the degree of eligibility. In addition, it is only reasonable to expect a corresponding rise in the cost of other (e.g. domiciliary) services to the old.

This rise, in total, will be proportionately larger than any likely rise in output. Yet it is based only on existing rates of benefit. In fact it is most unlikely (and would be most improper) that as other real incomes rise, the real value of pensions will not also rise. It is therefore clear that the proportion of total income needed to meet the requirements of the old will rise well above its present level.

This prospect inspires many demands for economy; and a number of expedients are popularly canvassed. Conservatives often talk in terms of large administrative economies. But there is no evidence that these are possible – indeed if wages and salaries in the public service are to be kept in line with those in the private sector, administrative costs must rise; and the powerful professional bodies concerned may be expected to see that they do.

A rise in the retiring age is another suggestion much favoured. This may well occur, in some form or another, as standards of health improve. But it will not significantly reduce the pensions bill. The Phillips Committee, though it favoured the idea itself, showed that a rise in the retiring age of 3 years for both men and women would only save (net, that is, allowing for higher expenditure on national assistance, health, and unemployment benefits) £50 millions per annum in 1979.<sup>1</sup>

It is sometimes suggested that the subsistence principle should be *nominally* maintained (that is, the intention would be that most pensioners should live mainly on their pensions, without recourse to national assistance), but that subsistence should be defined more strictly in order to avoid the rates of benefit rising *pari passu* with average real incomes.<sup>2</sup> This would be a most unjust solution, ungenerous, to say the least, to the old. The present subsistence level is strict enough, permitting only a few shillings a week for other than bare necessities; most people would say that it was already too low. And it is surely both right and natural that it should rise as average incomes rise. Poverty is not,

<sup>1</sup> Cmd. 9333, para. 187.

<sup>2</sup> Cf. Walter Hagenbuch, 'The Rationale of the Social Services', *Lloyds Bank Review*, July 1953.

after all, an absolute, but a social or cultural, concept. Even in the most basic terms of health and nutrition, there can never be some constant, eternally valid yardstick by which to judge what constitutes 'subsistence' – standards rise here, as they rise in respect of less essential consumption. But in any event we should not behave like medical officers of health, concerned only to provide sufficient food and clothing to ward off starvation and ill-health. We are surely concerned with happiness and social justice also. This demands a relative, subjective view of poverty, since the unhappiness and injustice which it creates, even when ill-health and malnutrition are avoided, lies in the enforced deprivation not of luxuries indeed, but of small comforts which others have and are seen to have, and which in the light of prevailing cultural standards are really 'conventional necessities'.

Thus any view of poverty other than a clinical one, requiring only that the poor should come up to the right point on the calory chart or sickness graph, requires that standards of subsistence should rise with economic progress. If the opposite view were adopted, the poor would grow steadily poorer relative to the rest of the community; and this hardly seems consistent with humanitarian, let alone socialist, ideals. Successive Chancellors must therefore face the prospect of periodic increases in the level of benefits, not merely to offset any fall in the value of money, but to prevent a redistribution of income against the pensioner.

The last possible, though drastic, economy would be to abandon the subsistence principle altogether, and pay pensions only subject to a means test. This suggestion, which raises much wider issues concerning the whole rationale of the social services, is considered in the next chapter. Here I shall merely assume that a Labour Government is certain (rightly) to reject it, and that the problem of rising Budgetary cost therefore remains.

## v *The Cost of Private Superannuation*

It is sometimes said that a further burden is imposed on the community by the growth, outside the State pension scheme, of private superannuation schemes. These have spread at a remarkable rate in recent years, encouraged both by generous tax reliefs, and the difficulty facing employers in attracting and retaining

staff. Some 3 million people in the public service and over 5 million in private employment, or one-third of the total working population, are now covered by such schemes;<sup>1</sup> and there is every indication that they will spread.

What are their economic implications? First, for the supply of savings. At present, contributions greatly exceed out-payments on pensions. Of course, if the number of schemes remained constant, a moment would naturally come, since they are for the most part on an actuarial basis, when expenditure on pensions would (roughly) balance income from contributions and investments; and net saving from this source would be zero. But this moment will not occur, even for the existing schemes, for 30 years, and meanwhile new schemes, each of which will for many years show a large surplus of receipts over out-payments, are constantly being introduced. For three or four decades to come, therefore, total private superannuation income will exceed expenditure by considerable, though diminishing, amounts; and net savings from this source will be substantially positive.<sup>2</sup>

But might not this saving occur in any case? It seems most unlikely. Given the strong bargaining position of employees in a seller's market for labour, some fraction of the amounts now paid in contributions would, if no pensions schemes existed, inevitably be disbursed in higher wages and salaries; and clearly not the whole of this would be saved. Even, therefore, if the remaining fraction were entirely saved (accruing either in taxation or to undistributed profits), the consequence would be a decline in net saving as compared with the present position.

It is sometimes said that pension funds and insurance companies tend to favour safe as against risky investments, and that the growth of private superannuation will therefore diminish the supply of genuine risk-capital. The first statement may well be true; but of course the second does not follow from it. It would do so only if we assumed no increase in total net savings, but simply a transfer of existing savings from audacious risk-bearers to cautious trustees.<sup>3</sup> But there is, as we have seen, an increase in total savings; and since the pension funds do normally invest a

<sup>1</sup> Cmd. 9333, p. 59.

<sup>2</sup> For a discussion of the effect on saving, v. 'The Economics of Pension Funds', by F. W. Paish and A. T. Peacock, *Lloyds Bank Review*, October 1954.

<sup>3</sup> Though in fact the transfer might easily be from other savers with an equally cautious outlook.

proportion of their income in equities, there could hardly be any absolute decline, and is fairly certain to be an increase, in the volume of savings placed at risk.

Nor do I believe, what is sometimes suggested, that the growth of superannuation will dangerously strengthen the control of the financial institutions over private industry. If the funds were mainly controlled by the insurance companies, there might be some substance in this fear. But the greater part of them are held by autonomous pension funds, set up by the company concerned, and controlled by trustees amongst whom the Trade Unions are often represented. If these funds do choose to invest in equities on a substantial scale (which would incidentally dispose of the fears mentioned in the last paragraph), I foresee no obviously dangerous consequences. From a distributive point of view, the benefits of higher dividends and capital gains would be better spread than they are to-day; while from a control point of view, since pension funds are likely to be extremely passive shareholders, the result would be further to weaken the influence of property relative to that of management, which I should not regard as a particularly undesirable outcome.

It is also said that private superannuation, owing to the fact that pension rights are rarely fully transferable, will have an adverse effect on the mobility of labour; and of course it is the case that a desire to reduce turnover is often the main motive for introducing a superannuation scheme. Yet I feel rather sceptical about the alleged ill-effects – if only because labour turnover between firms is much higher than is economically necessary (and probably socially desirable). But in any case, they can easily be avoided, since tax relief can be made conditional on the grant of full transferability of rights.

However, the immediate issue is whether the growth of private superannuation imposes, as has recently been suggested, a formidable new burden on the community, which in 25 years' time, if it does not actually exceed the burden of State pensions, will at any rate approach it in magnitude: all this supported by figures, splendidly irrelevant, of future gross expenditure on private pensions.

Now the cost, or burden, of pensions, as we have seen, has two aspects. First, the growth in the relative numbers of the elderly creates a problem of real resources; and this is quite

irrespective of whether private superannuation exists or not. The question is, does private superannuation create an *additional* burden, in the sense that additional resources are pre-empted away from the rest of the community towards the participants in private pension schemes? This cannot, of course, be answered by quoting figures of the future *outlay* on private pensions, but only by considering the balance between contributions, which diminish personal spending power, and pensions, which increase it. The National Insurance scheme does of course impose a burden on the rest of the community, since total pensions will increasingly outstrip total contributions; the scheme, viewed as a whole, therefore makes a large net claim on resources.

This is unlikely to be true of private superannuation during the 30-40 years of 'build-up', since contributions will exceed benefits by very large amounts; the spending power of the contributors is thus reduced by more than the spending power of the pensioners is increased. The consequence, on almost any plausible hypothesis about the pattern of spending and saving in the absence of such schemes, is a level of net saving higher than would otherwise be the case. Thus so far from constituting an additional burden on resources, private superannuation actually serves to release resources for other uses, and notably for higher investment. Considering the prospective strain on our resources during the next decade,<sup>1</sup> this constitutes an overwhelming economic argument in its favour.

Matters may, it is true, look different in the very long run, when the 'build-up' is complete, and benefits have risen to the point where they roughly equal contributions. While it will still be the case that gross additions to and gross subtractions from personal spending power cancel out, the actual level of spending might be higher, and of saving lower, than would otherwise have been the case. This would occur on the (plausible) assumption that pensioners consumed the whole of their pensions, so that consumption was higher by the gross amount of pensions, but that saving would not be higher by the gross amount of contributions, since some part of these might have been saved in any case. The net claim on resources by the participants in superannuation would then be higher, and the availability of resources to the rest of the community lower, than if no superannuation

<sup>1</sup> *v.i.* Section VI, and Chapter XVIII.

had existed. But even this is rather misleading, since the additional net savings available during the long build-up period would meanwhile have made possible a higher level of investment, and hence a larger real output from which to accommodate this additional claim.<sup>1</sup> Even in the very long run, therefore, it is most unlikely that superannuation could be said to impose an economic burden on the community; rather, indeed, the reverse.

But of course there will still be a 'transfer' cost, since these schemes attract substantial tax reliefs. At any given level of government expenditure and desired rate of public net saving, this tax relief is a cost, like any other tax allowance, in the sense that taxation must be higher (or expenditure lower) in other directions than if it did not exist. The prospective future cost of this relief is difficult to prophesy owing to lack of the necessary information. The current cost is about £100 millions; and it has been suggested that this will treble over 25 years. But of course the real *net* cost will be considerably smaller, not simply because some part of the relief will be recovered later as the growing stream of pensions becomes liable to tax (and because there will be some saving on National Assistance), but also because the *total* yield of taxation will be higher than otherwise as the additional investment, made possible by the higher net savings during the 'build-up' period, reflects itself in higher output and incomes. The genuine net cost to the Exchequer is therefore likely to be much lower than the figures sometimes quoted, and of course much lower than the net cost of National Insurance pensions. However, it is clear that some addition to the 'transfer' burden will result, although we cannot calculate its magnitude without more detailed information.

## VI *The Cost of Health and Education*

What are the prospects for the rest of government expenditure? If this were to fall proportionately to total output, then the pensions burden could be much more easily carried.

We might reasonably expect three major items to remain at about their present absolute level, and so to decline as a proportion of national income. Net National Debt charges vary with the

<sup>1</sup> *v.* Paish and Peacock, *op. cit.*



monetary and taxation policy of the government; but they tend to vary only within comparatively narrow limits, and there seems no reason to expect them to be significantly higher in 25 years' time than now. Subsidies will certainly not rise under Conservative rule, nor, if the argument of the next chapter is accepted, should they increase significantly under Labour rule. Defence is an unknown factor, depending on unpredictable strategic and international influences. But unless the international situation markedly deteriorates, in which case all calculations will be upset, we might assume at the very worst that defence expenditure will require about the present volume, and thus a diminishing share, of resources.

If these three items fall as a proportion of output, the remaining social services (excluding pensions) could all rise *pari passu* with real income, and the fiscal problem would still be perfectly manageable. The question is, how rapidly will these other services rise?

First, education. We have already seen that the prospective fall in the number of schoolchildren may not, from a Budgetary point of view, balance the rise in the numbers of the elderly (especially as the fall will be mainly in the pre-school age-group).<sup>1</sup> At present, costs are exceptionally high (or rather they would be if we took education more seriously) on account of the 'bulge' in the school population consequent on the abnormally high birth-rate in the immediate post-war years. But no fall in (potential) expenditure is to be expected even after the 'bulge' has passed through the schools, since we must then attend to the deplorably low level of our educational standards.<sup>2</sup> All the additional teachers (and ancillary expenditure) now required to meet the 'bulge' would then be required merely to maintain a smaller size of class, and to make possible perhaps one further large educational reform (e.g. raising the school-leaving age to 16). Indeed, it is fairly clear, especially allowing for the full implementation of equal pay, that current expenditure even to achieve this limited objective *should* then be well above its present level.

But this would represent only a bare and depressing minimum.

<sup>1</sup> v. Hugh Gaitskell, *Population Trends and the Social Services* (Eleanor Rathbone Memorial Lecture, 1954).

<sup>2</sup> One child in seven (three-quarters of a million children in all) is still being educated in an all-age school.

It implies the maintenance of the present leaving age, and the postponement of any real improvement in staffing ratios, until the early 1960s. It would be quite insufficient to secure parity of esteem even within the state system, let alone between state and private schools; and it would make only an insignificant contribution to genuine equality of educational opportunity. A rapid and serious reform, embracing a really substantial size-of-class reduction, an extra school year, an expansion of secondary technical education, more nursery-schools, and the provision of county colleges – and this would, after all, only be the fulfilment of the 1944 Education Act – would require a large increase over present expenditure. Thus owing to a combination of ‘bulge’ and appallingly low existing standards, current educational spending could, and ideally should, rise faster than productivity at least for several years ahead; though the rise, given the stability of the future school population, would have a once-for-all character, and a decade might see us through our difficulties.

Secondly, health. Costs must rise to some extent here, since old people need proportionately more health expenditure than other sections of the population. But the main rise will come simply from the attempt to provide an adequate service. This will require, in the words of the Guillebaud Committee, ‘very considerable additional expenditure. . . . We need only mention the deficiencies which would have to be made good in the provision of mental hospitals, mental deficiency institutions, services for the chronic sick, hospital out-patient departments, domiciliary health services, the dental services, etc. To make the Service fully “adequate” in these terms, a greatly increased share of the nation’s resources would have to be diverted to it from other uses. Nor is it clear that such a service, even if it were to become “adequate”, would remain so without continually increasing expenditure. The growth of medical knowledge adds continually to the number and expense of treatments and, by prolonging life, also increases the incidence of slow-killing diseases. . . . The advance of medical knowledge continually places new demands on the Service, and the standards expected by the public also continue to rise.’<sup>1</sup> If we aim at an adequate Service, therefore, it seems likely that health expenditure will also rise a good deal faster than total output.

<sup>1</sup> Cmd. 9663, paras. 94-7.

Thus a combination of population trends with a strong and wholly justifiable pressure for higher standards might easily enforce a rather rapid rise in current health and education expenditure. In the case of other services, the population influence is absent, but the pressure for higher standards is strongly present. Thus family allowances at present rates would remain fairly constant, as the number of eligible children will not greatly alter; but the cost of extending them to the first child would be an additional £100 millions. Non-pension insurance benefits may be expected to rise as average real incomes rise. The political pressure for a more liberal distribution of post-war credits is extremely heavy. And even the pressure to increase subsidies, and indeed incur all sorts of other new or larger items of expenditure, is, for a Labour Government especially, inevitably strong. Looking ahead 25 years, all these improvements could be quite easily accommodated. But over a decade or so they might create a formidable fiscal problem even though other government expenditure were held constant.

Capital costs must also be considered, since they too may create a taxation problem. Given full employment, a rise in social investment, unless miraculously balanced by a simultaneous rise in private saving, may require an equivalent rise in public saving through the Budget surplus; and this, in turn, would require higher taxation or lower current expenditure.

The problem here arises from the appallingly low standards of our existing social capital, and the consequent heavy accumulated demand for new expenditure. There was already a large backlog of demand due to the neglect of the inter-war years, and the virtual cessation of new building during the war. Even since the war, the social services have usually been accorded a very low priority in investment programmes; and they were commonly the first to suffer from any crisis cuts in investment. The result is serious overcrowding in schools, bad conditions in hospitals, a large residue of slums, and an acute shortage of special facilities such as mental homes and schools for backward children; while some new forms of capital expenditure, projected many years ago amid general applause, still hardly exist except on paper (e.g. health centres and county colleges). And such expenditure will loom increasingly large as we extend the purpose of the social services from the mere relief of poverty, to the creation of standards

of public health, education, and social capital generally which are comparable in quality with those available to the rich.

Once again it is mainly a problem of the next few years, and of a heavy concentration of demand in time. This is due to the bulge in the school population, the arrears of building in the Health Service,<sup>1</sup> the once-for-all repairs and slum-clearance problem in housing, all superimposed on a rising trend of industrial investment. After a few years of intensive investment, things would be much easier. By the early 1960s the new (as opposed to replacement) school-building programme will be largely complete; and most of the arrears in housing, and some of those in health, will have been made good. But any government wishing to effect a significant improvement in our social capital before the mid-1960s will find resources very scarce.

It will be seen, therefore, that the discussion of the burden of the ageing population has given rather a false perspective. If we look simply at the change in age-structure, and consider it in terms of available resources over a 25-year period, there is scarcely a problem worth bothering about. The real problem is quite different. First, it is mainly, though not of course solely, a fiscal and not a resources problem. Secondly, it is mainly a problem of the next decade, owing partly to demographic changes, and partly to the serious backlog of expenditure. Thirdly, the problem is acute because the economy is already fully-stretched, and subject to many other claims for higher spending, and because taxation, already high by historical standards, cannot be indefinitely increased beyond its present level.

## VII *The Insurance Principle*

Can the taxation problem perhaps be side-stepped by an extension of the insurance principle?

A lot of ink is wasted in debating this so-called principle. The truth is that there is very little insurance principle, in the normal sense of the term, in the National Insurance scheme.<sup>2</sup> There is

<sup>1</sup> Quite apart from the fact that 45% of our hospitals were originally built before 1891, there has been virtually no new building since 1938. The Guillebaud Committee recommended that capital expenditure on hospitals should be considerably more than doubled.

<sup>2</sup> For a full discussion of this point, v. Alan T. Peacock, *The Economics of National Insurance* (William Hodge, 1952).

no adjustment of premium to risk, or premium to benefit. The scheme is not actuarially self-supporting, but attracts a (growing) Exchequer subsidy. The reserve funds are used not to buttress the finances of the scheme, but to help meet the day-to-day requirements of government debt-management. And Government policy can directly affect both the yield from contributions and the commitments on expenditure.

National Insurance thus represents not a conventional insurance scheme at all, but merely one, and in some ways a convenient, method of financing a part of social expenditure.<sup>1</sup> The workers' contribution amounts to a flat-rate poll-tax on all employees, that of the employers an indirect tax on the employment of labour.

Most of the arguments for the 'insurance principle' are therefore based on a misconception. It is said, for example (e.g. in the Beveridge Report), that the British public prefers social insurance inasmuch as the payment of contributions converts the benefits from an act of charity into a definite 'right'.<sup>2</sup> But it does nothing of the sort, since the contributions are not sufficient to finance the benefits, which are subsidised out of general taxation. Not that this makes them an act of charity – all benefits have to be paid for by the public somehow, whether through contributions or taxation. Nor is there any evidence that those benefits which might loosely be thought of as financed out of contributions, i.e. social insurance benefits, are any differently or more favourably regarded than those financed out of taxation, such as family allowances or the Health Service. (In fact, most people have no idea which benefits are financed by which method.)

Nor are most of the arguments against the insurance principle any more convincing. Contributions are often attacked as a regressive tax. Indeed they are – but not more so than many other indirect taxes which fall mainly on the workers and yet are essential to financing the social services. Again, National Insurance is said to involve unnecessary administrative costs, which could be avoided if the principle of insurance were abandoned,

<sup>1</sup> Insurance contributions pay for about one-quarter of all current expenditure on social services.

<sup>2</sup> It is always made to sound as if there was something peculiarly British, and therefore fine, about the insurance principle in social security. In fact, of course, it was invented by the Germans, and only copied years later by the Liberal Government in its 1911 Act.

and the scheme assimilated into a single unified structure embracing income tax and all cash benefits; the Radcliffe Commission, however, gave little support to this view.<sup>1</sup> Or it is said that contributions impose an intolerable burden on wage incomes; but in fact weekly earnings have increased by proportionately more than contributions since the present scheme was introduced in 1946.

The only sensible approach is not to bother over-much with mystical discussions of the 'insurance principle', but to regard the contributions simply as a particular form of regressive taxation which now pays for a certain fraction of the social services. The question of whether they should be raised, reduced, abolished, graded according to income, or replaced by a social security tax, can then be calmly decided in the light of (a) the total revenue required to finance all the social services, and (b) the degree of progressiveness of the tax system *as a whole*, including contributions.

If it appears (as it certainly will) that the social services must in any case be financed to a large extent out of working-class taxation, and if the tax structure as a whole is as progressive as it can be in the light of incentive considerations, then insurance contributions have certain definite advantages over other forms of working-class taxation. They are less noticed, and therefore less unpopular, than many other imposts. They have no ill effect on incentives, since they do not vary with the amount earned. They bring in a wider section of the population than any single indirect tax. And they may possess, whatever the actuarial reality, a psychological advantage in convincing people that social benefits must somehow be paid for by the recipients, and do not come from an inexhaustible reserve fund in Whitehall. But the matter is not one of principle; and the final decision must be taken in the light of the tax structure as a whole. In any event, there is nothing here which disposes of the problem of prospective cost, which remains a major challenge to socialists in attempting to fulfil the social welfare aspiration.

<sup>1</sup> *Royal Commission on the Taxation of Profits and Income: Second Report*, Cmd. 9105, Paras. 27-52.

## VII

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### THE PURPOSES OF SOCIAL EXPENDITURE

#### I *The Conservative Approach: the Insistence on a Test of Means*

THE challenge of the high cost of social welfare cannot be met without a clear view of the fundamental purpose of the social services, and hence of the order of priorities.

The Conservatives have been the first to respond with a clear-cut statement of purpose. This is set out in a book by two prominent Conservative politicians, one of whom later became Minister Health. 'Given that redistribution is a characteristic of the social services, the general presumption must be that they will be rendered only on evidence of need, i.e. of financial inability to provide each particular service out of one's own or one's family's resources. Otherwise the process is a wasteful and purposeless collection and issue of resources, which leaves people in the enjoyment of the same facilities as before.'<sup>1</sup> Or again, as Mr. Powell put it on a later occasion: 'Upon this view the ascertainment of need is the essential preliminary to meeting need, though that ascertainment may take other forms than those which have given the term "means test" its emotional and political content to-day. A means test and a pure social service go together.'<sup>2</sup>

Now one can accept that redistribution of some kind is a characteristic of the social services, since it is rather unlikely that every citizen will pay in tax the exact amount which he receives in benefits – though even if he did, the operation would

<sup>1</sup> Iain Macleod and J. Enoch Powell, *The Social Services: Needs and Means* (1952), p. 5.

<sup>2</sup> *The Listener*, 17 April 1952.

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not necessarily be 'purposeless', for his pattern of consumption might be different as a result; his children, for example, might receive more education than if neither taxes nor benefits existed.

But the redistribution might perfectly well be horizontal – from bachelors to families, the healthy to the sick, the young to the old, the employed to the unemployed, *at every income level*. All these transfers would normally be described as social services; all would redistribute income; none would be a 'wasteful and purposeless collection and issue of resources, which leaves people in the enjoyment of the same facilities as before'; yet none would require a means test or evidence of need.

It is only if redistribution is narrowly defined as being from those above to those below a subsistence line, and if a social service is then defined as entailing such redistribution, that the conclusions about evidence of need and financial inability follow; and that a means test becomes, not just a disagreeable necessity, but the central feature of social service policy. But of course there is no reason at all why a social service should be defined in this way; and most people would not in fact so define it. The definition is wholly arbitrary, and indeed is no more than a recommendatory statement describing what these authors think that a social service should be like. And this recommendation is in effect for a return to the 'poverty' approach which underlay the Poor Law in the last century, and, more recently, the concept of the national minimum.

Ignoring, then, the statements which purport to be definitions, but are not, what is to be said of this view? First, a means test as applied to the basic cash benefits is disliked for very real, and not merely 'emotional and political', reasons. It is undignified, humiliating, and highly inimical to working-class saving. It is resented as implying charity, and an open confession of lost independence and inability to support oneself; and indeed this resentment is itself a reassuring sign of civic sturdiness.<sup>1</sup> Because it is so unpopular, it fails to achieve its object, since many people even now refuse to apply to the Assistance Board, preferring to suffer in silence.<sup>2</sup>

<sup>1</sup> This resentment is particularly strong amongst war pensioners, who feel that the nation owes them, regardless of their means, a return for services rendered on the battlefield.

<sup>2</sup> cf. P.E.P., *Planning*, No. 349, 1 December 1952, 'Social Security and Unemployment in Lancashire'.



Secondly, this approach offends against the principle of social equality, since it publicly isolates the lowest and poorest section of the community and relegates them (or so they feel, whether logically or not) to the status of dependants on the public purse. Thirdly, it assumes that the social services are exclusively concerned with redistributing income to those in *financial* distress; whereas in fact, as is made clear later, there are many urgent objects of social expenditure which have little to do with direct financial need.

Lastly, it is offensive because it implies that social expenditure must always, on grounds of principle and not simply of cost, be reduced to the barest minimum. The socialist view, on the contrary, as was argued in Chapter V, is that the relief of social distress should be given an exceptionally high priority; and this calls for a much more generous, less niggling and cheese-paring, attitude than is implied by an insistence on a test of means for every single social service.

## II *The Sociologists' Approach: Free Universality and Social Equality*

Should we then go to the opposite extreme, and say that all benefits, whether in kind or cash, should invariably be both free and universal, with no obligation ever to prove need? The principle of complete 'free universality' is urged on the assumptions first that the rationale of the social services is to promote social equality, and secondly that 'free universality' is a necessary condition of social equality. Let us discuss the second assumption first.

Universal benefits, it is said, symbolise the fact of social equality by conferring on everyone a badge, as it were, of citizenship. They eliminate any public distinction between social classes, between rich and poor, the eligible and the non-eligible. 'The strongest argument for showering benefits upon rich and poor alike,' writes Mrs. Barbara Wootton, 'is that nobody need then know who is poor and who is not.'<sup>1</sup> And Professor Marshall writes of the 'equality of status' that comes with universal services. 'Even when benefits are paid in cash, this class fusion is outwardly

<sup>1</sup> *Political Quarterly*, Vol. XXIV, 1953, p. 66.

expressed in the form of a new common experience. All learn what it means to have an insurance card that must be regularly stamped, or to collect children's allowances or pensions from the post office. But where the benefit takes the form of a service, the qualitative element enters into the benefit itself, and not only the process by which it is obtained. The extension of such services can therefore have a profound effect on the qualitative aspects of social differentiation.<sup>1</sup> The labels 'ex-elementary schoolboy' and 'panel patient' disappear, class differences are blurred, and society become more homogeneous.

It seems rather doubtful whether the fact that everyone now has an insurance card, and repairs to the local post office, really does much to foster social equality. These cash benefits are too small in relation to the total incomes of better-off people to make much difference to how they live or feel – indeed the rich scarcely bother to draw them. 'Showering benefits upon rich and poor' will not prevent everyone knowing who is poor and who is rich; the only way of doing that would be to abolish the poor and the rich. And that requires much more than universal subsistence benefits.

When we turn to services in kind, however, we find a more direct link with social equality, especially in the spheres of health and education. If the state provides schools and hospitals, teachers and doctors, on a generous scale and of a really high quality, comparable with the best available for private purchase, then the result will be, not indeed a greater equality of real incomes, but certainly a greater equality in manners and the texture of social life. In Sweden, for example, scarcely anyone, whatever his income, uses private schools or hospital facilities – partly, it is true, for historical reasons and because wealth is more evenly distributed than in Britain, but also because the state schools and hospitals achieve such an impressively high qualitative standard. And the fact that people of every class go to the same school and use the same hospital facilities (and also, to a far greater extent than in Britain, live on the same new housing estates) is an immensely important influence in creating a sense of social equality and lack of privilege.

But in order to achieve this aim, these services need not necessarily be provided free to all, or without a test of means;

<sup>1</sup> T. H. Marshall, *Citizenship and Social Class* (Cambridge, 1950), pp. 56-7.

nor need they even be universally used. It is much more a matter of relative standards. Social differentiation is inevitable if standards in the state system are conspicuously and notoriously inferior to those in the private system. But as the gap is narrowed and facilities become genuinely comparable in quality, the mark of inferiority attaching to the public services will disappear, whether or not these are provided entirely free, and whether or not they are *universally* used; though naturally they will be more and more used as their relative standards improve.

Thus in education, despite the continued existence of parallel state and private schools, the inferior status attaching to the former is less marked than a generation ago, and the phrase 'ex-elementary schoolboy' has almost disappeared from the public vocabulary – not because state education has become more free or universal, but because its qualitative standards have risen rather nearer to those prevailing in the private sector. On the other hand a wide status gap still exists between the two, and would whatever the system of payment in the state schools, simply because the gap in standards remains very wide, and the private schoolboy in fact enjoys an incomparably superior education.

Again, in housing, the term 'council-house' is beginning to lose its pre-war social connotation, not because a higher proportion of the population lives in council-houses, still less because larger housing subsidies were for some time granted without an income-test, but simply because the standard of new municipal housing has risen relative to that of new private housing; indeed for some years after the war there was little difference between the two. And if, in the future, large blocks of sub-standard private house-property were to be municipalised, as the Labour Party proposes, we should find a pattern of social inequality in housing which bore no obvious relation to the size or distribution of housing subsidies, but depended solely on physical differences in housing standards.

The same process has been at work in health. People who use the National Health Service are not now opprobriously designated 'panel-patients'; large numbers of middle-class people use the service, and no superior status attaches to those who stay outside. Yet the service is neither free nor universally used. Private practice still continues; and a number of charges are made, subject to relief after a test of means.

It appears, then, that while social equality of course requires universal *availability* of the public service (though not necessarily completely universal use), it does not always require universal *free* availability. And there is all the difference, from the point of view of avoiding social differentiation, between a test of means which determines the right to use a service, and one which determines only the question of payment. Thus if beds in state hospitals were to be provided only for national assistance beneficiaries, or if old-age pensions were to be paid only subject to a means test, the sick or the elderly would be denied the right of unconditional *access* to the service; they would first have to apply to the State, and produce evidence of destitution. This would lay a clear mark of social inferiority on those who applied, who would openly confess themselves as incapable of self-support. The test of means is here both a denial of access unless certain conditions are satisfied, and a means of isolating the poorest section of the community.

But granted the right of access, an income-test to determine the question of completely free access – one, that is, which requires the state to apply to the citizen for a recovery of charges, and not the citizen to apply to the state for the right to use the service – need neither offend against social equality, nor cause humiliation, provided that two conditions are fulfilled. First, the benefit or service must not be so essential, and so large in relation to the recipient's means, that he may reasonably consider he has a social right to it, so that both his real income and self-esteem would be severely affected by a test of means. This rules out an income-test both for the basic cash benefits, which often constitute almost the whole of the recipient's income, and for the central, essential health and education services. Secondly, the income-line should be set as high as possible. If only paupers are excluded from the need to pay, there is more danger of inferior feelings arising than if only surtax-payers are compelled to pay. The income-test applied to University awards, for example, which exacts no payment below a certain level, then a graduated payment, with full payment only above £2,000, cannot be said to cause social inequalities – especially as tutors and fellow-students have no means of detecting who is grant-aided and who is not.<sup>1</sup>

<sup>1</sup> A graded payment of this sort was of course the policy of the Webbs. (c. Joan S. Clarke, 'The Break-up of the Poor Law', in *The Webbs and Their Work*, ed. Margaret Cole, Muller, 1949.)

## THE PROMOTION OF WELFARE

Thus the link between free universality and social equality is rather tenuous. On the one hand, social equality is not necessarily threatened by an ascertainment of means, subject to certain conditions. And on the other, the provision of free and universally available services will not enhance social equality if they are much inferior to the corresponding private services. They will then simply not be used by better-off people; and class differentiation will be in no way diminished.

Social equality mainly requires the creation of standards of public health, education, and housing so high that no marked qualitative gap remains between public and private provision. It will then matter little whether or not occasional charges are imposed, subject to the above conditions. While as for universal use, this will either follow automatically (or perhaps be enforced by a growing equality of incomes); and even if it does not, and some diehard snobs continue to prefer their private doctors, this will really be of little moment. But the important point is that 'universality' must follow *from* social equality, and cannot itself create it.

### III *The Social Services and Income Distribution*

When we turn to the influence of free universal benefits in kind on the distribution of *incomes*, we find that they are even less efficient in promoting equality. This is because some significant part of such benefits, accruing as it must to those above the median line of income, will be 'wasted' from an egalitarian point of view. Universality and vertical redistribution inevitably conflict.

In fact the social services are now scarcely redistributive as between rich and poor. 'The outstanding feature of the post-war growth in redistribution is not that of taking from the "classes" and giving to the "masses"'. The main feature is that the benefits of redistribution cut across income-groups and are largely related to consumption. As a general proposition, the working class pay enough additional in beer, tobacco, purchase taxes, and other indirect levies to meet the increased cost of the food subsidies and health and education expenditures, while the increase in the direct taxes they pay covers the rise in their transfer money

receipts.'<sup>1</sup> In 1949 the working class, defined as those with incomes of less than £500 p.a., paid in taxes £139 millions more than they received in benefits. A later study for 1950-1<sup>2</sup> showed that total working-class taxes exceeded total social service receipts by an even larger sum.<sup>3</sup>

A major reason for this (at first sight) surprising result was the growth of free (untaxed) benefits in kind relative to (taxed) benefits in cash. Whereas in 1938-9 53% of social service expenditure took the form of transfer payments and 47% of services in kind or subsidies, the figures for 1951-2 were 34% and 66% respectively, the food subsidies being mainly responsible (up to 1952) for the change in proportions.

Cash benefits aid the poor man more than the rich man because they make a larger proportionate addition to his gross income. Universal benefits in kind or subsidies will have the same effect if the poor man spends proportionately more of his income on the free or subsidised commodity than the rich man. Nevertheless they are less efficient than cash payments from a redistributive point of view. First, not being subject to tax, they accrue in equal absolute amounts to poor and rich alike; whereas the net amount of cash benefits, which are subject to tax, is smaller the higher the income. Secondly, while cash benefits are normally concentrated on obviously needy groups (the old, the sick, large families), subsidies are often more indiscriminate - indeed they must be, if they are to fulfil the ideal of 'universality'.

I am not of course suggesting that this is a sufficient argument against subsidies or universal benefits in kind, since there are often other and decisive arguments in their favour.<sup>4</sup> It is simply that their wasteful distributive effects, as compared either with cash or more selective benefits, again make it difficult to establish the link between 'free universality' and equality.

<sup>1</sup> Findlay Weaver, 'Taxation and Redistribution in the United Kingdom', *Review of Economics and Statistics*, August 1950.

<sup>2</sup> Peacock, *Income Redistribution and Social Policy*, p. 160.

<sup>3</sup> This does not of course mean, for the reasons explained in Chapter II, that the fiscal system has no *equalising* effect on income-distribution.

<sup>4</sup> Though if they *cannot* be justified by reference to other arguments, then the fact that they are 'wasteful' from a redistributive point of view is clearly a strong argument against them (*v.* Section VIII).

IV *The Main Purposes of Social Expenditure*

I conclude that simply to set the principle of free universality against the Tory insistence on a stricter poverty approach is not the right answer: not, obviously enough, because the declared purpose of fostering social equality is wrong, but because this is not the right way to achieve it. The right way, in the field of social expenditure, is a generous, imaginative, long-term programme of social investment which will make our state schools and hospitals, and all the services that go with them, the equal in quality of the best which private wealth can buy.

But in any event, social equality cannot be held to be the ultimate purpose of the social services. This must surely be the relief of social distress and hardship, and the correction of social need; though naturally measures directed to this end will often also enhance social equality, which in any case remains an important subsidiary objective.

Now this central purpose will not be attained by adopting the Conservative view, since this presumes that unavoidable social distress (that is, distress not due to the irresponsibility of the individual concerned) is a function, if not of primary poverty, at least of financial hardship; hence the insistence on a test of means. But social distress and need to-day are a product not solely of primary poverty or an absolute lack of means, but also, and indeed increasingly, of other more varied and subtle causes, which operate far above a subsistence level of income.

This does not mean that primary poverty can be neglected, or that rising material standards do nothing to reduce the area of need. While any primary poverty remains, it must have the first priority; and of course the growth in family incomes makes a profoundly important contribution to social welfare. Nevertheless, even the final disappearance of primary poverty, and a continued rise in average incomes, will still leave behind a large residue of need and hardship.

First, hardship may still be caused by what is loosely termed secondary poverty: that is, ill-health, malnutrition, or deprivation of essential needs, due not to an absolute deficiency of income but to unwise spending. Even Conservatives recognise the possibility

of unwise spending, and accept it as a justification for basic health and education services.<sup>1</sup>

But it is sometimes thought that once these have been provided, little more need be done, especially as secondary poverty will gradually disappear with the rise in real wages. This is too optimistic. Whatever the level of real wages, children may be deprived of essential health provision by the genuine ignorance of their parents; it is rather an old-fashioned view to think always in terms of the neglectful or inebriate father, pouring his child's free orange juice into his gin. Wartime investigations of why only 38% of mothers regularly took up free cod-liver oil for their children showed that overwhelmingly the biggest reason was not a vicarious dislike of its taste, but sheer ignorance that it was beneficial; similar investigations of the diphtheria immunisation scheme revealed that less than one-third of the parents interviewed had any knowledge either of the disease or its causes.<sup>2</sup>

But quite apart from ignorance, secondary poverty due to unwise spending appears still to be disturbingly prevalent. It arises most commonly from a maldistribution of income within the family. There are many families whose total income would be quite sufficient, were it to be pooled, but where the housekeeping allowance granted by the husband to the wife is insufficient, to support a reasonable subsistence standard. This may occur in families of any size owing simply to the selfishness or thoughtlessness of the husband. But it occurs with particular frequency in large families, where the *additional* allowance made by the husband for each additional child is often not enough to defray the extra cost.

Family allowances on the existing scale are not an adequate answer. They were introduced to prevent the average standard of life of a family from falling as its numbers grew with no equivalent rise in wages; and if family income were normally pooled, they might at least go a long way in this direction. In practice, however, 'the idea of an average family standard of life was misleading. The financial burden of having an extra child was not . . . shared equally by all members of the family, *but fell with especial severity upon the mother and upon previous children.* Some husbands behaved

<sup>1</sup> Thus conceding, despite their strictures to the contrary, that the man in Whitehall does sometimes know best.

<sup>2</sup> v. Sheila Ferguson and Hilde Fitzgerald, *Studies in the Social Services*, Ch. V.



like employers. They did not increase their wives' "wages" as the size of the family increased.<sup>1</sup> It is this changing distribution of relative income between husband and wife as the size of the family grows which explains the common phenomenon that the larger the family, the lower the expenditure on necessities relative to that on drink and tobacco.

Such secondary poverty, where dependent children are involved, at the mercy of other people's decisions, is clearly a communal responsibility (though mis-spending by adults is not – it is not the duty of the state to deal with every quiet inebriate). It justifies a high priority for a wide range notably of family social services: amongst services in kind, maternity and child welfare, and amongst cash benefits those, such as family allowances, which offset the financial hardship of bearing additional children.

A second cause of hardship, again unrelated to primary poverty, is the decline in the size and cohesion of the family group. In 1911, of women aged around 50 who had been married for 25 or 30 years, over 70% had four or more children, over 40% seven or more, and only 5% none. Of the corresponding group in 1951, only 25% had four or more children, 5% seven or more, and nearly 11% had none.<sup>2</sup>

The effect of this demographic change is exaggerated by simultaneous social changes. Spatially, families are much more scattered than they were two generations ago, as a result partly of increased occupational mobility, but mainly of housing developments – the growth of suburbs and new housing estates well away from the older property areas in the centres of large cities, and now of course new towns at an even greater distance. Fifty years ago, different generations of a family often passed all their lives in a small neighbourhood, within easy walking distance of each other; to-day, they are characteristically scattered over an area which makes mutual visits an annual, or at any rate not a daily or weekly, event.

But this disintegration of the family would probably have occurred in any case, owing to a change in social attitudes towards what constitutes a 'proper' family unit. The family used to be seen as the entire group of different generations; and the size of the

<sup>1</sup> Michael Young, 'Distribution of Income Within the Family', *British Journal of Sociology*, December 1952.

<sup>2</sup> Ferguson and Fitzgerald, *op. cit.*, Ch. I.

Victorian household was not due solely to the larger number of children, but also to the larger number of grades of relatives which made it up. To-day, the family is seen simply as the parents and their dependent children. These, and these alone, constitute the proper household unit; and the presence of other relatives is resented, and even thought to be psychologically harmful. Hence the prejudice against sharing a home with in-laws: the belief that grown-up children should leave home and fend for themselves: and even the vague conviction that for adult relatives to live together is somehow wrong.

'As we have narrowed the home,' Margaret Mead has written, 'and excluded from it the grandmother, the unmarried daughter, the unmarried sister, and – as part of the same process of repudiating any sharing of a home with another adult – the domestic servant . . . each home has been reduced to the bare essentials – to barer essentials than more primitive people would consider possible . . . The mother is a nutritionist, a child psychologist, an engineer, a production manager, an expert buyer, all in one.'<sup>1</sup> And the converse is the greater loneliness of the other relatives who once shared the home, and now live separately.

Whether these changes are on balance good or bad, I do not know. But they certainly have implications for social service policy, for they greatly reduce the possibility of inter-family help. 'Middle-aged people had fewer young relations to help them in the crises of life. Young adults who were forming their own families . . . tended to have a good many aunts and uncles but fewer of the really near relations – brothers and sisters – who were more likely to help in emergencies. Moreover, as the families with dependent children were small, fewer families had older, reasonably responsible, children who could help with babies and the two to five year olds.'<sup>2</sup> But the most obvious manifestation of the change are the lonely elderly, with, as compared with 50 years ago, possibly no unmarried daughters to look after them, fewer married children, or even nieces and nephews, to pay them visits, and fewer grandchildren to keep them happy and occupy their minds.

Thus we see a steady contraction in the possibilities of mutual family aid at times of crisis or difficulty: during confinement,

<sup>1</sup> *Male and Female* (Gollancz, 1950), pp. 334-5.

<sup>2</sup> Ferguson and Fitzgerald, *op. cit.*, p. 2.

the illness of a young mother, chronic sickness, and above all old age. And this has nothing to do with primary poverty, nor is it confined to the working class. Before the war, it is true, with domestic servants cheap and plentiful, and hotels or nursing-homes available at moderate prices, better-off people could manage with reasonable ease. But even they cannot always now, under conditions of high taxation, the decline in the purchasing power of fixed incomes, and the prohibitive price of domestic labour. Only the very rich can now cope entirely unaided with family problems, sickness, loneliness, and old age.

A substantial social provision, extending far beyond the conventional poverty line, is therefore required, not indeed to release the family from all its obligations, but to shoulder communally those obligations which even the most devoted family to-day, in view of its size and physical dispersion, cannot fulfil unaided. This calls for more nurses, nurseries, orphanages, small houses and service flats for the elderly, institutional facilities generally, and (perhaps most important of all) more domiciliary and home-help services.

The third cause of social hardship is the maldistribution of income relative to needs, both through time and between persons. This arises either because income is not fully adjusted to an accession of needs, as in the case of people bearing families: or because income actually falls just at the moment when needs are greatest, as during sickness: or because even when needs are perhaps declining, income declines more sharply still, as on retirement. The result is twofold. At every income level, families and old people are badly off relative to single people and those in work. And amongst the working class, as the Rowntree-Lavers study showed, even though only a very small fraction are living in poverty at any given moment, a much larger proportion pass through periods of poverty at some time during their lives.<sup>1</sup>

This general lack of correlation between needs and income is visible today in most advanced countries—in Sweden and America as well as in Britain. Everywhere the young single worker, and to a lesser extent the young childless couple and the parents still at work but whose children have grown up, are conspicuously privileged groups, with money to spare and few responsibilities; while parents with children, and old people living on their

<sup>1</sup> *Poverty and the Welfare State*, p. 80.

pension, with greater responsibilities or fewer resources, are just as conspicuously under-privileged. And this is not only unjust as between persons; but the fluctuations in living standards within the individual's lifetime – what Professor Titmuss has called 'disharmonies over the life-span' – also lead to conflict and stress. 'Concepts and standards of living cultivated by relatively high earnings before marriage may be shattered by the lower standards resulting from marriage and parenthood. The prosperities of late middle life may make the hardships of living on old age pensions seem harder than they really are.'<sup>1</sup>

Thus hardship must be seen not as an absolute concept, but as relative both to expectations and previously realised real income. This is particularly true to-day when, as a result of certain contemporary social habits which are reflected in heavy fixed-expenditure commitments, any given fall in income produces a much greater proportionate fall in freely-disposable income. Most people now undertake substantial commitments fixed in advance – mortgage payments, insurance premiums, hire-purchase commitments, education outlays, and the like.<sup>2</sup> If their income falls, they could no doubt afford a perfectly adequate standard of life if they cut these commitments – sold the house, allowed the insurance policy to lapse, defaulted on their hire-purchase payments. But if they do none of these, their uncommitted income may be drastically reduced, and genuine hardship follow, even though their total income remains well above a subsistence level. Thus changes in income are magnified in their effects on current expenditure; and it becomes more than ever important to consider not absolute income only, as the poverty approach requires, but also fluctuations.

Of course taxation and social services already redistribute income in the right direction.<sup>3</sup> But by socialist standards much more should be done, on grounds of justice as well as welfare, to raise the real incomes of the old, the sick, and those with young families relative to the rest of the population. And, as we shall see,

<sup>1</sup> 'Social Administration in a Changing Society', *British Journal of Sociology*, September 1951, p. 196.

<sup>2</sup> The Oxford Savings Surveys show that 75% of families have contractual savings of some sort (life assurance, superannuation, repayment of mortgages), and 25% have some hire-purchase debt. (*Bull. Inst. Stat.*, May 1955.) This last figure is probably growing rapidly.

<sup>3</sup> More than Professor Titmuss allows in the article just quoted.

the existing maldistribution is worse at the lower than the upper end of the income scale; and corrective measures will increase social equality between classes, as well as social justice within classes.

v *The Neglected Special Cases and the Need for  
a New Orientation*

Lastly, there are the 'special cases', which fall into no large categories extending across the whole population, but where distress is due to specific, unavoidable, individual misfortune. The parents of backward children, the relatives of mental deficients, serious psychiatric cases, neglected children and children of broken homes, the blind, the tubercular, the chronic sick generally – it is amongst such groups that perhaps the greatest suffering of all remains.

Yet they always tend to be neglected, to be put at the bottom of the queue, and suffer the first cuts in expenditure. They are neither vociferous, nor numerous enough to count electorally. Even since the war, in the excitement of building the Welfare State, too much attention was paid to universal benefits, and too little to the relatively few, but often desperate, special cases. Thus schools for backward children, for example, were given a very low priority, and mental hospitals an even lower one – it only requires a few brief minutes inside a typical mental hospital to be appalled at existing conditions, and at how much needs to be done.

These are also cases especially hard hit by the smaller size and increased dispersion of the family, and by the lack of relatives to help or nurse them. And of course their need is such that the concept of a subsistence means test is totally inappropriate. These misfortunes are in no way related to primary or even secondary poverty; and people with normally perfectly adequate incomes may find the facilities they need far beyond their means (if indeed they can find them at all). There is no objection to recovery of payment in full or in part where this can clearly be afforded; but it is out of the question to make the *provision* of the necessary facilities conditional on a prior means test, least of all one at a very low income level.

## THE PURPOSES OF SOCIAL EXPENDITURE

How little all this has to do with poverty can be seen from the case of broken or problem families. These will not be automatically cured by paying subsistence cash benefits, or raising the level of real wages, or even by housing everyone in brand-new well-planned municipal estates. No doubt a proportion of the trouble can be traced to bad material conditions, but much of it will persist however completely poverty is eliminated; and there may be nearly as many problem families on the new housing-estates as in the old slums.

It is said by the experts<sup>1</sup> that the first requirement for more adequate treatment of many of these cases is a major administrative reform, designed to co-ordinate existing overlapping, and consequently wasteful and inefficient, services; this appears to apply especially to the case of the problem family.<sup>2</sup>

But this may come only as part of a wider re-orientation of outlook. In the past, social problems have been seen essentially as 'category' problems, and mainly also as problems of material deprivation. This was the philosophy underlying the Beveridge Revolution: that one isolated broad categories where need could be presumed without individual investigation, and then met the need by generous cash payments. The objective was the elimination, not of distress, but of want; and want was assumed to be due to causes common to the entire population. And at the time this was clearly the right approach; indeed it will remain a highly relevant one for many years to come.

But if our present rate of economic growth continues, material want and poverty and deprivation of essential goods will gradually cease to be a problem. We shall increasingly need to focus attention, not on universal categories, but on individual persons and families: not on the economic causes of distress, but on the social and psychological causes. We shall want the advice, not of the economists, but of psychiatrists, sociologists, and social psychologists. We shall rely less on broad, sweeping measures of expenditure than on concentrated measures of aid to limited groups, based on patient, empirical social research into the real nature of the need. And the aid will often take the form, not of cash payments, nor even of material provision in kind, but of individual

<sup>1</sup> *v.*, for example, 'Can the Family Survive?', by Peggy Jay, *Family Planning*, July 1955.

<sup>2</sup> A change in the law relating to adoption appears also to be urgently needed.

therapy, casework and preventive treatment. The tone of social expenditure may be set less by old-age pensions, than by the Family Planning Association, child care committees, home visitors, almoners, and mental health workers.

The Labour Party is perhaps not yet fully alive to this gradual change in the pattern of need. It still tends to think exclusively in the traditional Beveridge categories; while the Conservative 'test of means' approach is of course quite irrelevant to these problems. Yet the change is the inevitable corollary of the social revolution described in Part One. This, allied to a rapid rate of growth, is gradually giving us victory over the old enemies of poverty, unemployment and glaring injustice. But as we conquer these, we find that so far from Utopia coming steadily into view, new and more subtle social problems, hitherto concealed by a natural obsession with material standards, now come to the surface and demand attention. And these new problems will not be cured simply by doubling the standard of living in twenty-five years, or even by greater equality, highly desirable as both these objectives are. This is a field in which 'Keynes-plus-modified-capitalism' wholly fails to provide an adequate answer; and a determination to accord these social problems an over-riding priority should be a characteristic, even more than a belief in equality, of a socialist outlook.

## VI *The War and the Social Services*

The first signs of a wider view of the social services came with the experience of war. The war was in any case a major agent of advance in the social service field. This was due partly to the mood of national unity: partly to the revelation, which evacuation provided to the middle classes, of the appallingly low standard at which many city-dwellers lived:<sup>1</sup> and partly to the urgent new needs created by evacuation and war mobilisation.

But the significant change was less the actual growth of new services, than the gradual realisation that social needs did not

<sup>1</sup> People have forgotten to-day the profound shock administered by the physical condition and behaviour of some working-class evacuee children. But the bitter controversy and mutual accusations over, for example, the widespread manifestation of enuresis amongst these children did at least demonstrate to middle-class people that an acute social problem of some kind existed.

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arise solely from destitution, but were to be found at all levels. For these far-ranging additional needs manifested themselves at a time of full employment, when *economic* distress was less widespread than ever before in British history. The lack of correspondence between poverty and social need therefore stood out with exceptional clarity; and it was this experience which gave birth to the new and wider concept of the role of social services.

Thus it was believed in 1939, for example, that only the poor would need government aid if their homes were bombed, and that the rest could look after themselves; the responsibility for the bombed-out was therefore laid on the Assistance Committees. Naturally the belief and the arrangements both disintegrated with the first heavy raid on London. Again, when evacuation was first under debate in Whitehall, the Treasury refused to sanction money for providing temporary lavatory accommodation at rural reception stations, holding that this was not a legitimate object of social expenditure; this attitude also failed to survive very long. The issue of free milk and subsidised meals in schools, previously restricted rigidly to 'necessitous and under-nourished' children, was soon extended to all children as the obvious fact was realised that all were equally affected by the growing shortage of food. A last and characteristic instance was the treatment of unmarried mothers; originally only those who were destitute were thought either to need or deserve support, and the responsibility was again laid on Public Assistance Committees; gradually it was realised that here was an urgent, widespread and inevitable wartime social problem, with tragic consequences at every income level, and that aid must be given to all who needed it, whether destitute or not.<sup>1</sup>

By the end of the war, 'it was increasingly regarded as a proper function and indeed obligation of Government to ward off distress and strain among not only the poor but almost all classes of society'.<sup>2</sup> Of course war, with its accompaniment of physical destruction and social disturbance on a havoc-making scale, enormously extends the range of problems which even the better-off individual cannot meet himself. It would be quite wrong to suggest that the area of government responsibility should be as

<sup>1</sup> These examples are taken from the two social service volumes in the *Official History of the Second World War: Problems of Social Policy*, by Richard M. Titmuss, and Ferguson and Fitzgerald, *op. cit.*

<sup>2</sup> Titmuss, *op. cit.*, p. 506.



wide, or even nearly as wide, in peacetime. But the basic philosophy is the right one in peace as well as in war.

## VII *The Social Services and Social Equality*

Four main areas of need were isolated above; and if these are agreed, the priorities in social expenditure more or less sort themselves out. The first three – secondary poverty, the altered position of the family, and fluctuations in needs through time – point above all to old people, those with large families, and those whose earnings are interrupted by sickness. Moreover the residue of primary poverty is also concentrated in these groups.

The first priorities are therefore fairly clearly ordained. They are on the one hand the traditional cash benefits to these groups – old-age pensions, sickness and disability benefits, and family allowances; and on the other, certain welfare services in kind already mentioned *seriatim* in the text. The other essential priority is to meet the needs of the ‘special cases’; this will not require a vast outlay – it is much more a question of the *will* to be generous to numerically (and electorally) insignificant groups.

These are the expenditures required to meet social distress, hardship, and need. But of course additional expenditures are required to fulfil the allied purpose of increasing social equality. This was discussed earlier in relation to health and education. But there are also other ways, relevant to what might broadly be termed social policy, in which expenditure and/or tax reliefs can increase social equality by making available to poorer people essential facilities or advantages which better-off people can quite well buy for themselves. Legal aid is an obvious example.

But the main manifestation of inequality in this respect is the better provision which the rich are able to make, either from their private means, or through tax-concessions, or from the terms of their employment, for those periods in life in which needs rise sharply relative to income. That is, the elderly, the sick, and those with large families in the wealthier classes come off comparatively better than people similarly circumstanced in the poorer or working classes.

In the case of families, those with large incomes derive a relatively greater benefit, both in amount and duration, from tax

allowances, than the wage-earner from family allowances; the former, unlike the latter, both extend to the first child and continue until the child's full-time education is complete. Moreover most middle-class people receive annual or periodic increments of salary which partially offset the extra cost of rearing children during the critical years from 25 to 40. Most wage-earners, by contrast, are earning the same at 40 as at 25.

In the case of sickness, the disparity arises because firms now commonly make up salaries in full for weeks or even months of sickness; but they seldom make up wages. The worker thus suffers a sharper relative drop in his income just when his needs are greatest. In the case of old age, the difference is due to the existence of private superannuation schemes, which are available to some employees but not to others.

Some of these disparities can and should be corrected by Trade Union action; while so far as fiscal policy is concerned, they point to the same priorities as the earlier considerations. But one question needs a rather more detailed discussion, namely private superannuation.<sup>1</sup>

From the point of view of individual welfare, its effects are clearly excellent. Everyone concedes the hardship associated with the sharp reduction in living standards which occurs on retirement; and anything which brings the standard of life during old age *for any individual* into better relation with his previous standard is likely to increase welfare. At any rate this is evidently the view of the contributors themselves, since these schemes are extremely popular.

Now it is clear that this gain in welfare is badly distributed, as only one-third of the working population is covered by such schemes. But there is often said to be a further injustice, arising from the regressive effects of the income-tax concessions which these schemes attract. These concessions, it is argued, bring no benefit to the poorer section of the population, which pays no income tax; and since contributions are normally a proportion of income, the benefit is greater, the larger the income. 'The State pays more for the rich man's pension than the poor man's.'

There seems to be some confusion here. First, any allowance against income-tax necessarily benefits high incomes more than low incomes, since the former are liable for more tax in the first

<sup>1</sup> Its economic implications were discussed in the previous chapter.

place. This is an inevitable consequence of combining progressive taxes with tax allowances. Thus in this sense the State pays more for the wife, the children, and the dependent relatives of the rich than the poor, since these all attract an income-tax allowance which is obviously not available to those who pay no tax. If this is objected to on principle, then *all* tax allowances should be withdrawn. But there are no grounds of principle for singling out the pension relief alone for criticism.

Secondly, it has long been understood that it is rather pointless to isolate one element in the total tax structure, and condemn it as being regressive. The total structure of taxes, allowances, and benefits must always be an amalgam of progressive, proportionate, and regressive elements; and nothing follows from considering the effects of any one item in isolation. If we are concerned with equality, we must look at the entire picture of taxes and expenditure, and consider the overall effect.

The reason why particular items are often regressive, even within a highly progressive total structure, is that taxation has other purposes besides the vertical redistribution of income. One such purpose is to transfer resources *at each income level* from those with fewer to those with greater needs. From this point of view, tax reliefs may be an alternative to social expenditure; and this of course is the rationale of income-tax allowances.

Whether a particular allowance, or scale of allowance, is justified naturally depends on whether the gain in welfare is deemed to outweigh the regressive effect. (Of course, an allowance need not make the tax system as a whole less progressive, since the cost may be defrayed, as the Minority on the Radcliffe Commission proposed in the case of higher child allowances, by higher taxation of others within the same income-group. But taken by itself it must be regressive.) Everyone agrees that the child allowance is justified on grounds of social and family welfare. In my view, the principle of superannuation relief is also abundantly justified by the gain in welfare from encouraging a more generous provision for old age – though some of the actual reliefs at the top end of the income scale are quite unnecessarily lavish, and badly in need of pruning.

The real case against the existing state of private superannuation does not mainly relate to the tax concessions – it is simply that only part of the population is covered. It is the distribution

of superannuation which is unfair, rather than the distribution of the tax reliefs. Not only are two-thirds of the working population not covered, but of course individuals cannot choose whether to be covered or not – it depends on the organisation in which they work. The result is a growth, on completely haphazard lines, of two distinct classes: those who must subsist on the State pension, and who consequently suffer an extremely severe drop in their incomes on retirement, and those covered by superannuation schemes, who suffer a much less severe reduction. This offends against both social justice and social equality; and indeed it could easily lead to a greater inequality in old age than during working life.

Then what is the solution? We cannot base the entire national provision for old age on the principle of flat-rate subsistence pensions, partly because private superannuation has already spread so far, and also because it would in any case be illogical. If the object is to keep the standard of living in old age in a reasonable relation to that previously experienced, then pensions must vary with previous income.

No doubt the most logical solution would be to reorganise the entire National Insurance pension scheme, making both contributions and benefits variable. But the opposition to this is so strong that it hardly seems practical politics for the next decade; and meanwhile something must be done. The obvious solution would therefore be, as has recently been proposed in Sweden by a Government Committee, a universal, compulsory scheme superimposed on the existing national insurance scheme. Under the Swedish proposal, contributions would vary with annual income, and the pension with 'life salary' (i.e. the cumulative total of income earned during working-life).<sup>1</sup> (The pension would also rise automatically with increases in the real national income, and with any fall in the value of money.)<sup>2</sup> The next Labour Government would be wise to study this possibility at an early stage in its career.

<sup>1</sup> For a variant on this, v. Brian Abel-Smith and Peter Townsend, *New Pensions for the Old* (Fabian Society, 1955).

<sup>2</sup> But the scheme would be financially self-supporting – indeed, during the early years of build-up a large 'buffer-fund' would be created; and even after the build-up, each year's expenditure is to be fully covered by that year's income. The build-up period has important implications for the supply of savings (v. Chapter XIX, Section III).

VIII *Universal Subsidies versus a Concentration of Effort*

What, then, of the problem of cost, which the previous chapter showed will be a serious limiting factor at least for several years ahead? Above all, it underlines the importance of getting the priorities right, and having a clear view of the role of the social services. (It should also enforce a decent moderation in election promises.) But it surely also means that charges for certain services cannot be ruled out, and that indiscriminate subsidies, diffused over needy and non-needy alike, should be as far as possible avoided.

We have already seen that an income-test to establish the possibility of payment in part or full need not give rise to social inequality provided that it is not applied to the central, essential services, nor takes the form of a subsistence means test. The examination of means is not, as Conservatives regard it, the central feature of social policy, intrinsically meritorious and indeed implicit in the nature of a social service. But it has some part to play – especially as an insistence on zero-cost provision under all circumstances necessarily pre-determines the choice between providing all existing services free, and spending more money in other directions.

Each proposal for charging must be examined in the light of four considerations. First, which is more socially beneficial – the free provision of the existing service, or such new expenditure as might be financed by imposing charges? This will depend, secondly, not only on how essential the existing service is, but on how elastic the demand for it is, that is, whether a charge will seriously discourage people from using it. Thirdly, is there a simple and efficient method of remitting charges in case of need? Fourthly, does the free service lead to wasteful use, and so absorb resources which might be better employed elsewhere?<sup>1</sup>

These are questions to be examined empirically and in detail; they can be discussed quite rationally, and not in the atmosphere of a tense debate on first principles. Of course only the social

<sup>1</sup> The most obvious example of a charge designed partly to prevent waste is the graduated income-scale applied to legal aid. A completely free service here, in view of the litigious instincts of many otherwise normal citizens, might lead to an appalling outbreak of frivolous litigation.

service expert can apply the criteria with authority. But the income-test now applied, without damaging results, to services as diverse as university scholarships, legal aid, prescriptions, and (increasingly) municipal housing, suggests that a definite scope exists – provided the criteria are sympathetically applied, and the charges easily remittable in case of need. No doubt the total revenue would never be very large. But this does not mean that it can be neglected in view of the prospective strain on the Exchequer.

Lastly, the question of subsidies, and especially food subsidies. (Considerations of wage policy, which raise quite different issues, are here ignored.)<sup>1</sup> These are defended, first, on the grounds that they redistribute income from those without to those with dependants, since the latter may be presumed to spend proportionately more of their incomes on food. This is a wholly desirable redistribution; but subsidies are a very inefficient method of achieving it. They are diffused over the entire population, and not subject to tax. The redistribution would be less wastefully accomplished by an increase in family allowances (and probably old-age pensions, since pensioners also spend an unusually high proportion of their incomes on food).

But, secondly, subsidies are defended, as against the alternative of higher cash payments, on the grounds that by altering relative prices they *induce* those with families to buy more food than they otherwise would, even though their real incomes may be unchanged. This is a doubtful justification. It is not certain that food consumption at present levels of working-class income is very elastic to changes in price, assuming real incomes to be maintained. It probably depends on what steps are taken to compensate a rise in food prices. If alcohol and tobacco taxation were to be reduced (which in practice is hardly likely), then food consumption might fall; for although total family income might be unchanged, the real value of the wife's housekeeping allowance would fall, and the real value of the husband's 'pocket money' would rise; and the husband might not compensate for the change. But if higher family allowances were to be paid, so that not merely total family income, but the internal distribution of that income in real terms, were to be left unchanged, then food consumption would probably not suffer.

<sup>1</sup> They are discussed in Chapter XXI.

There is, however, one set of circumstances in which the consumption of food is particularly sensitive to changes in prices, even though real income is fully maintained. This again arises from the manner in which income within the family is typically divided between the wife's housekeeping allowance (spent largely on food and necessities) and the husband's pocket money. Given stable prices, the division between the two may be adequate to proper nutrition. But in a general price inflation, although the husband is gaining compensating wage increases, he may not increase the housekeeping allowance proportionately. Expenditure on food and necessities must then decline, and may decline significantly, relative to expenditure on semi-luxuries; and in large families the nutritional results may be serious.<sup>1</sup>

In such a situation, a simultaneous increase in food subsidies and indirect taxes on semi-luxuries would serve to restore the previous distribution of intra-marital real income, and the previous ratio of food to other expenditure. The social case for subsidies is therefore strongest in a period of inflation.

But with this one exception, the case on social grounds does not seem strong enough to justify increases in subsidies in preference to other, and less wasteful, means of achieving the same distribution of real income – especially as there is also a genuine consideration of the citizen's freedom to spend his income as he chooses. Socialists tend to discount this point, partly because they confuse it with the popular but nonsensical argument, worn threadbare by orthodox financial writers, that subsidies distort or conceal the 'true' or 'real' pattern of costs and prices. Of course there is no such pattern of costs or prices. In a world of monopoly, imperfect competition, tariff barriers, inelasticities of supply, foreign exchange restrictions and the like, there is no significant sense in which untaxed or unsubsidised prices can be considered 'real'.

But this does not affect the issue of paternalism. Since subsidies, if properly compensated in the event of their withdrawal, need not give rise to any transfer of income from anyone to anyone else, they must be seen as a deliberate attempt at 'socialising' income with the object of forcibly altering the pattern of national expenditure. Now this kind of paternalism is clearly justified in respect of the basic welfare services discussed in this chapter. But

<sup>1</sup> *v.* Michael Young, loc. cit.

at present cultural levels and standards of real income, it should not be pushed into much wider fields.

This is a point where socialists should pull themselves up sharply, and begin to ask where they are going. It is not a part of socialism continually to tell people how to spend their incomes. To do so involves a genuine interference with liberty, and a quite excessive preference for the view that the man in Whitehall knows best. Conservative gibes on this point may be rejected in respect of a massive social expenditure, outlined in this chapter and fully justified on grounds of need and hardship. But beyond this point, socialists should recall (though they often do not) that they have anarchist blood in their veins, and that it is no part of their creed always to back the State against the individual. Let them preach, if they will, but not indefinitely compel, the virtues of prudence and self-discipline.

In any case a preference for large increases in subsidies would, under present circumstances, be most unwise. The fulfilment of the social welfare ideal, at a time when resources are already heavily committed and government expenditure high, will call for a considerable measure of political courage and will-power if the necessary resources are to be freed, and the transfer problem surmounted. There will be strong opposition, certainly from Conservatives, and possibly even from wage-earners and the general electorate, to the levels of taxation involved. If this challenge is to be met – and if it is not, a socialist government would be failing in its first objective – we cannot afford to spread social expenditure thinly over needy and non-needy alike, but must concentrate it heavily on those points where the need is greatest.





PART FOUR

THE SEARCH FOR EQUALITY



## VIII

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### THE DETERMINANTS OF CLASS

#### I *The British Paradox*

TWO developments have occurred which compel us to reconsider our approach to the second basic socialist aspiration, that towards social equality and a 'classless' society. First, it appears that after the redistribution of the last two decades, certain of the traditional socialist arguments for more equality no longer apply. This is discussed in the next chapter.

Secondly, we have moved a long way towards equality of incomes, yet we still seem far from a *socially* equal and classless society. 'England', wrote George Orwell in 1941, 'is the most class-ridden country under the sun.' Matters have improved a little since *The Lion and the Unicorn* was written. Yet despite the redistribution of income described in Chapter II, we still retain in Britain a deeper sense of class, a more obvious social stratification, and stronger class resentments, than any of the Scandinavian, Australasian, or North American countries. In fact we almost take our class system for granted, so completely does it permeate our social attitudes. But the foreign visitor or even the returning traveller, less accustomed to the phenomenon, is still shocked and surprised by its extent.<sup>1</sup>

<sup>1</sup> And the phenomenon is also evident in our relations with other, and especially Asiatic and African, peoples. A recent (and poignant) testimony to it is Sherpa Tenzing's account in his autobiography of his agonised indecision as between climbing Everest with the British in 1953, or waiting to climb it another year with the beloved Raymond Lambert and the Swiss. 'I would rather have gone back to Everest with the Swiss. . . . With the Swiss and the French I had been treated as a comrade, an equal, in a way that is not possible for the British. They are kind men; they are brave; they are fair and just, always. But always, too, there is a line between them and the outsider, between sahib and employee.' (*Man of Everest*, Harrap, 1955, pp. 224-5.)

And indeed its stubborn persistence in the face of torrential social changes induced by two World Wars and six years of Labour rule is surely puzzling. Britain now presents an unusual paradox to the world: of a society characterised by an exceptionally mature political democracy, growing economic prosperity, and a social order which apparently metes out social justice in a reasonable degree: yet still with an unreconstructed class system, productive of deep collective resentments. The apparent invulnerability of this system to changes in the sphere of income suggests that the classless society will not be reached simply by more redistribution of wealth. We now need a wider interpretation of the goal, and, as a preliminary, a closer analysis of the nature of class, than we needed in the past.

## II *What People Mean by Class*

When people speak of class, they are assuming that society is divided into a limited number of strata, one above the other. Each stratum can be called a social class. Societies differ in respect of the number of strata, the distance between them, and the precision of the dividing lines. These latter are rarely completely clear; but this does not make class divisions any less real – we are, after all, fully aware of differences in sex despite the existence of hermaphrodites.

This stratification derives from, and is reflected in, socially recognised relationships of superiority and inferiority. 'Social classes may be described as portions of the community, or collections of individuals, standing to each other in the relation of equality, and marked off from other portions by accepted or sanctioned standards of inferiority and superiority.' 'By class is meant two or more orders of people who are believed to be, and are accordingly ranked by members of the community, in socially superior and inferior positions.'<sup>1</sup>

These socially-recognised relationships express themselves in the way a man is collectively treated and regarded by other people, as well as in the way he treats and regards them. They therefore

<sup>1</sup> These two almost identical definitions are deliberately taken from two sociologists who disagree about the *determinants* of class: Morris Ginsberg, *Sociology* (Butterworth, 1934), p. 159; and W. Lloyd Warner, *The Social Life of a Modern Community* (Yale University Press, 1941), p. 82.

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have both an external aspect, reflected in social attitudes – whether these are free and egalitarian, or deferential and condescending: and a psychological aspect, reflected in the strength or otherwise of subjective feelings of equality, superiority or inferiority.

This recognised web of relationships is the one incontrovertible fact about class. When we turn to consider how it is built up, what are the criteria of these socially-recognised distinctions, and what factors determine the individual's position in the hierarchy, we enter a realm where sociologists still disagree.<sup>1</sup> There is no one theory of class to which socialists can appeal when discussing how to have less 'class' than we now have. Moreover, almost all the evidence available from field research is American in origin; virtually no field-work has been done in Britain, and the examples in this chapter have necessarily to be taken largely from American studies.

This perhaps does not matter very much; for the object of this chapter is not to present a precise and detailed analysis of all the determinants of class, which in any case would be impossible at our present state of knowledge, but simply to emphasise the main determinants, and especially the fact that class-consciousness and social inequality rest on other factors besides income. These other factors may even be more important than income. But in any case they are certainly not always correlated with income (or with each other) – which means that the discussion inevitably gives an impression of indeterminacy; although in fact I believe, as I argue at the end of the chapter, that the picture is, for historical reasons, unusually determinate in England: that is, that the influences on the social hierarchy, being few and strong and rather closely correlated, are exceptionally clear. But even in England we must disentangle the separate influences, lest we mistakenly believe that more social equality is simply, or even mainly, a matter of more redistribution of wealth.

### III *The Marxist Theory of Class*

Most sociologists adhere to an 'objective' theory of class determination; that is, they assume that social class is more or less

<sup>1</sup> For an excellent account of the present state of the controversy, *v. 'Social Stratification – a trend report'*, by D. G. MacRae, *Current Sociology*, Vol. II, 1953-4.

automatically determined by certain objective and identifiable criteria, normally of an economic character.<sup>1</sup>

The earliest such theory was of course the Marxist. Marx held that the forms and conditions of production were the fundamental determinants of the class structure and class attitudes. Specifically, the stratifying influence was to be found in the ownership or exclusion from ownership of the physical means of production, from which it followed that in the last analysis there could only be two classes – owners (bourgeoisie) and non-owners (proletariat), all intermediate groups gradually vanishing from the social scene. The determinants of class are seen as not merely economic, but almost technological; and a class is simply a functional group having a particular (ownership or non-ownership) relationship to the means of production. Other social and ideological class differences will, of course, emerge in the course of time; but they are essentially secondary and derivative, merely a 'superstructure' built on the base of productive relationships.

Now this analysis might be plausible on three conditions, which may have been fulfilled in the past, but are certainly not fulfilled in advanced industrial countries to-day. The first is that productive relations and the division of labour should be of a technically simple character, so that the population falls into a few clear-cut economic groups, each possessing an unambiguous relationship to the means of production. But in fact the last century has witnessed a rapid growth of service occupations (professions, administration, entertainment, and so on) which have no contact at all with the physical means of production. Even within manufacturing industry, the growth of scale and the increasing technical complexity of production have enormously multiplied the number of (especially managerial and technical) skills, so that the labour force no longer constitutes a clear-cut proletarian class. (Automation of course will reinforce this trend.) Thus so far from polarisation having occurred, we see a growing proliferation of middle, neither proletarian nor capitalist, classes: and of classes whose social attitudes are not determined by a direct relationship to the physical means of production.

<sup>1</sup> The words criteria and indices are often used in this chapter as though they were synonymous with determinants, since it is assumed that class is in fact determined by collective evaluations of certain objective criteria which thus become indices. But of course people may (*v.i.*) quote criteria other than those which appear objectively to be the determinants.

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The second condition is that economic relationships, and hence the class structure, should be basically dominated by the criterion of the presence or absence of ownership. But Chapter III has already demonstrated the increasing irrelevance of ownership to economic power, income-distribution, the degree of exploitation, and all the other factors which might determine class attitudes.<sup>1</sup>

Thirdly, Marxist sociology presupposes, though Marxists do not admit it, a scarcity economy, in which men's lives and therefore social attitudes are ruled by the relentless pressure of material want and deprivation: for the majority, by poverty and resentment of poverty, and for the minority of rich by the inevitable counterpart – the fear of violent dispossession. Only in such a society would social relationships be wholly determined by purely productive relationships, and social aspirations by purely material drives.<sup>2</sup> But in the advanced industrial countries to-day, with their abundant and rapidly-growing economies, matters are beginning to look very different. Not only are social attitudes less and less dominated by crude economic resentments, but the decline in the hours of work, combined with the higher standards and greater variety of consumption-goods, are gradually weakening the significance for class evaluations of work relationships, and magnifying instead the impact of consumption and leisure relationships.

Of course class attitudes are still heavily influenced by the relations of production; a miner does not feel the same as a member of the Coal Board; industrial disputes have not died out (though increasingly the issues are non-pecuniary ones); and people still worry about their material standard of living. Marxist sociology (if fairly freely interpreted) therefore still has something to offer. But it clearly does not provide a sufficient, all-embracing theory of class.

### *IV Income, Occupation, and Style of Life as Determinants of Class*

Most sociologists before the war, while rejecting the Marxist theory as too narrow, nevertheless preserved a broadly economic

<sup>1</sup> v. Chapter III, Section IV.

<sup>2</sup> It is therefore not surprising that Marxism always seems most plausible in times of depression – witness its sensational revival in the 1930s, and equally rapid decline since.



approach. They took, as the main index of class, occupational or economic status in the widest sense, deriving this from a number of variables: amount of income, source of income, degree of security, extent of independence, degree of initiative and control, type of work (manual or non-manual), non-pecuniary privileges, and so on.<sup>1</sup>

Most people would agree that 'economic status' in some sense was a main, if not the prime, source of class differentiation. It often occurs to people first when assessing someone's class location, and it appears to justify and explain the tripartite social division into working, middle, and upper classes. But its apparent simplicity and reliability are rather deceptive; and on examination it appears as not one criterion, but an amalgam of separate and sometimes conflicting ones.

In particular, income is not exactly correlated with some of the other factors; and these are often the more powerful influence on occupational prestige. Thus when people are asked to rank occupations according to the social status which they carry, the answer by no means corresponds with the structure of income distribution; professors, dockers, secretaries, judges, miners and many other groups occupy different positions on the two scales. The outstanding divergence is shown by the 'white-collar' class in industry. This class often earns less than the wage-earners, yet its occupational prestige is higher on account of the (often irrational) kudos conferred by non-pecuniary privileges: payment by salary and not by wage, later hours of work, different canteens, pension schemes, greater security, non-manual character of work, etc.

Indeed generally the 'middle-class' professions to-day, especially those which are paid by salary, are middle class much more by virtue of their non-pecuniary status than their income status, which is (relatively) much lower than it used to be. Conversely, some industrial workers, and most small traders (shopkeepers and the like), have made an advance in their income status which is in no way reflected in the prestige of their occupations. It is clear that we must treat income and non-pecuniary occupational status as two distinct and separate factors.

But in recent years, largely under the influence of social-anthropological studies of small towns, some sociologists have

<sup>1</sup> v. Ginsberg, *op. cit.*, Ch. VI, for a clear statement of this view.

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reacted against too exclusive an insistence even on very broadly-defined economic criteria. These studies<sup>1</sup> appear to show that social stratification is not always exactly correlated either with income or occupation, but rests partly on vaguer criteria of an individual's 'way of life', social habits and manners, and general pattern of consumption.

Thus Lloyd Warner found that in Yankee City class position was assessed in terms of type of house, dwelling area, style of clothes, kind of entertainment, etc., and that in consequence people's expenditure was strongly oriented towards winning social approval.<sup>2</sup> And these evaluations by no means coincided with income position; 'many people in classes below the two upper classes earned more money.'<sup>3</sup> Similarly in Plainville, Abram Kardiner found that the two main classes were divided more sharply and objectively by 'manners' (a conglomeration of cultural factors embracing house, car, food, dress, speech, and public behaviour) than by any other criterion. And again he found a low correlation with income: 'many lower-class families (perhaps a third) are richer than many upper-class families (perhaps another third)',<sup>4</sup> but their incomes do not suffice to hoist them over the class barrier.<sup>5</sup>

Detailed studies of consumption patterns show that the distribution of new and fashionable goods, which confer obvious social prestige, is often quite random from an income point of view.<sup>6</sup> An individual's pattern of consumption cannot be deduced from his position in the income scale; nor can his income be deduced from his pattern of consumption, which is dictated rather by a

<sup>1</sup> v. Lloyd Warner's study of Yankee City (Newburyport, Mass.), op. cit., and Abram Kardiner's of Plainville, U.S.A. (*The Psychological Frontiers of Society*, Columbia University, 1945.) Unfortunately no similar studies exist for Britain.

<sup>2</sup> op. cit., Chs. VI and XV.

<sup>3</sup> *ibid.*, p. 287.

<sup>4</sup> op. cit., pp. 298-9.

<sup>5</sup> There is plenty of evidence that income is less and less the main socially-accepted criterion of high status. Certainly this is realised by rich men in America - consider the sad case of the corporation executives who, instead of being proud of the wide publicity which their salaries received when the U.S. Treasury decided to publish all salaries exceeding \$75,000, fought this publicity and eventually, in 1949, succeeded in changing the law so as to discontinue publication.

Similarly in England rich people often become quite irritated if very high incomes are attributed to them. Of course this may be due to a fear lest details should come to the sharp ears of the Inland Revenue, or to anxiety about the possible reaction of workers or shareholders. But there is more to it than this; wealth as such is simply not esteemed (though it may still be desired!) as much as it used to be.

<sup>6</sup> v., for example, the study of the distribution of air-conditioning plants in an American suburb: 'The Web of Word of Mouth', by William H. Whyte Jr., *Fortune*, November 1954.

process of fashion leadership operating within his particular social group (and often transmitted in almost subterranean fashion by the children – ‘Mummy, why can’t we have a dish-washer too?’).<sup>1</sup>

The most symbolic index of ‘style of life’ is of course dwelling-area: Kensington or Bermondsey; Edgbaston or Nechells; Woodstock Road or St. Ebbes; council-house or owner-occupier; East Side or West Side; uptown or downtown; the right or the wrong side of the tracks – these are the shorthand symbols often used for identifying an individual’s class position. And this aggregation of individual differences in ‘way of life’ into distinct social and geographical units shows that consumption habits can give rise not merely to a continuing series of status rankings, but also to broad social strata.

These observations have led to a new emphasis in discussions of class. Veblen has come back into fashion; and great stress is once again laid on the *social* quality of consumption. The purpose<sup>2</sup> of expenditure is seen as not merely to satisfy wants or individual tastes, but also to meet the social standards of the group: not merely to give intrinsic pleasure and private gratification to the spender, but to validate, re-affirm, or enhance his social standing. Thus the criterion for consumption ceases to be the ‘efficient’ expenditure of funds as the mythical ‘economic man’ might see it, and becomes the expected social judgment of the group. Hence, in Veblen’s phrase, the ‘punctilious discrimination’ in the choice of food, drink, service, ornaments, apparel, house, and amusements;<sup>3</sup> and to-day one would add car, television set, and domestic capital generally.

But we must not lean too heavily on Veblen. The significance of consumption in his theory was that it was taken as direct evidence of ‘pecuniary strength’. Its social function was to demonstrate the wealth of the spender, and this required that it should take a conspicuous, ostentatious, and even wasteful form. It was, in effect, an external symbol, or demonstration, of a class structure already given by economic factors. A Veblenesque theory

<sup>1</sup> The distribution of TV sets has (at least until recently – they have now become much too common) been an example of this on housing estates in England. But TV in England has always had the peculiarity of showing a downward kink, so far as prestige is concerned, at a certain point in the social scale.

<sup>2</sup> Of course the purpose may be sub-conscious. This is an example, in Robert Merton’s terminology (*v. Social Theory and Social Structure*, Ch. 1), of a latent as opposed to a manifest social function.

<sup>3</sup> Thorstein Veblen, *The Theory of the Leisure Class* (Huebsch, 1924), p. 74.

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thus requires first that wealth is the one indispensable basis of esteem, and secondly that wealth is judged by the amount of conspicuous consumption.

But neither of these is the case to-day. (And neither was ever as true in Britain as in some other countries.)<sup>1</sup> Status is now assessed not solely by wealth, but also by the pattern of consumption; and this is judged not simply as a reflection of wealth, but as having an independent social value of its own. Thus the highest expenditure, while it may still demonstrate the greatest wealth, does not *ipso facto* confer the highest status; consumption has become not only an independent variable in social evaluations, but one which often fails to coincide with wealth. It follows that 'lavish display' and 'conspicuous waste' are no longer the socially relevant objectives of consumption. Indeed, perhaps we have gone to the other extreme. Ostentation is now usually considered vulgar; and the approval of the group is won not by exceeding, but on the contrary by adhering to, its collective standards of what is fashionable and in 'good taste'.<sup>2</sup>

However that may be, style of life and consumption habits exert an exceptionally strong influence on social judgments in Britain, because variations *between classes* are much greater than elsewhere. This is largely due to the fact that contemporary British society still bears deep marks of the hereditary, aristocratic society from which it descends. Thus different social classes can be instantly distinguished by their dress (especially men's clothes; though only a very insensitive person can share the now popular view that one cannot tell a woman's background by her clothes), eating (and even drinking) habits, taste in furniture, type of house, style of entertainment, sporting tastes, and leisure activities generally. And these contrasts are the more obtrusive owing to being articulated in a rather stratified pattern of social life, typified at the top by the social circle surrounding the Court, the elaborate ritual of 'coming out', and London society generally.

But part of the reason why these differences make so strong an impact is that they are associated with, and exaggerated by,

<sup>1</sup> Least of all amongst the upper classes, who never judged status solely by wealth, and despised the *nouveaux-riche* when they indulged in ostentatious, Veblenesque behaviour. Status was quite simply a matter of lineage. But the industrial bourgeoisie had a much more Veblenesque attitude.

<sup>2</sup> Veblen's second index of pecuniary strength, the conspicuous abstention from labour, also attracts more disapproval than approval to-day.

the most supremely unmistakable of all symbols of social standing – differences of accent and vocabulary. In no other country is it possible in the same way to assess a person's class standing the moment he opens his mouth; and this fact exaggerates to an extraordinary degree the importance of 'style' as a determinant of class. Even in 1956, Eliza Doolittle is not looked on in Britain as a completely absurd period character; but abroad *Pygmalion* is always regarded as a wildly improbable British farce.<sup>1</sup>

Now these differences are not merely a consequence or derivative of other, economic, class determinants. They are not precisely correlated either with income – the oldest and most 'socially-esteemed' section of the aristocracy may (and often does) legitimately envy the wealth of top business executives or self-made financiers – or with economic power, as can be seen by considering the cohorts of elegant, well-bred young men swarming unimportantly through the merchant banks and discount houses of the City. There is, of course, a link through time; the *nouveau-riche*, himself by now ennobled, will send his son to Eton and Oxford, where he will have no difficulty in acquiring the necessary social polish. But at any given moment a pecuniary and a stylistic index may give different results.

The closest correlation in England, so far as accent, social manners, and style of life are concerned, is with education, and to a lesser extent with occupational prestige; though outside the upper, public-school-educated groups the pattern of consumption is more nearly, though not exactly, correlated with income. This interacting triad, at the top of the social scale, of education, style of life, and occupational status is unquestionably a more important cause of social inequality than income; if we understand this, we shall be less puzzled by the relative failure of income-redistribution to diminish class-consciousness.

### v *Power as a Stratifying Influence*

The last determinant to be considered is 'power'. There is evidently some sense in which power is a status-conferring attribute, with a strong influence on collective feelings of superiority

<sup>1</sup> And is there any other country in which articles on 'U' and 'non-U' words (*v. Encounter*, October 1955) would be treated not just as an engaging frivolity, but as describing a serious (and to many people, for all their humorous denials to the contrary, subjectively important) aspect of social class?

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and inferiority. But it is, unfortunately, an ambiguous concept, with many possible meanings. Naturally we are not concerned with its purely individual or random manifestations, with the hypnotist or the sadist, but only with those which are common to entire social groups. But even here one cannot easily attach a precise or unique meaning to so many-sided a concept; we can only pick out a number of separate aspects which seem significant for the class system.

First, the direct 'face-to-face' power of individuals over the lives and fortunes of other individuals, where both sets of individuals can be aggregated into social categories. This is most obviously characteristic of industry, where a clear hierarchy exists in respect of power to sack, demote or promote, pay higher or lower incomes, move people from one place to another, organise work in a particular way, and generally influence, if not determine, the income, nature of employment, and occupational status of employees. This hierarchy is not, as the Marxists suppose, related to an index of ownership, but simply to location in the organisational structure.

There has now grown up, following the rapid extension of the activities of the state, a parallel hierarchy of bureaucratic power in the political-administrative sphere. A large class of public officials, charged with interpreting and executing government regulations, wields a power over the lives and fortunes of individual citizens quite comparable with that traditionally imputed by socialists to the businessman; power to issue or withhold materials, permit or forbid the building of a factory, dispossess or decline to 're-possess' a landowner, keep people incarcerated in mental institutions, grant or withhold assistance payments, and so on. Indeed, such power-hierarchies are becoming more and more common with the growth in organisational scale; even the professions are now becoming bureaucratised, with the result that power-positions become codified and consolidated as compared with an era when professional people worked on their own account.<sup>1</sup>

These power hierarchies are undoubtedly a source of social stratification, and again one which does not exactly coincide with

<sup>1</sup> An increasing number of professional (and even academic) people now work in large-scale organisations – in private business, nationalised industries, government bodies, large hospitals, research foundations, and so on.

other sources. It may well be that a Dorsetshire landowner, perhaps a Lieutenant-Commander married into the aristocracy, has a higher income and occupational prestige, and certainly a more elegant style of life, than the Ministry of Agriculture officials who refuse to restore his land. The businessman seeking a licence from the Board of Trade may have twice the income of the young Principal who decides his application. The personnel manager in a large firm has a degree of 'face-to-face' power which is quite disproportionate to his income. Thus power as a stratifying factor cannot be subsumed under a simple wealth criterion.

Secondly, the 'remote' power to take decisions affecting not merely the individual, but entire categories of persons. With the growth of scale and the inevitable concentration of decision-making, a relatively small class of high executives in both public and private industry, and also in the Trade Unions, now wields a strategic power occasionally over the life of the nation, frequently over an entire industry, and continuously over the hundreds or thousands of employees of a firm.<sup>1</sup> Such power, being inevitably wielded to some extent in secret, and without collecting the voices of the people most affected, has a quality of remoteness and detachment which makes it a particularly fertile source of resentment, and hence, since the disparities between controllers and controlled are so wide, of deep class consciousness.

Now such immense power of *fiat*, although inseparable from the mass organisation typical of an advanced industrial country, may be more or less autocratic and irresponsible according to the institutional framework, the social climate of opinion, the balance of power between conflicting groups (e.g. employers and Trade Unions), and the degree of intervention by the state. And it was suggested in Chapter I that in private industry in particular it was now less irresponsible, and altogether more circumscribed by checks and balances, than was the case a generation ago. Nevertheless it still commands a wide area of social life, and still gives rise to marked hostilities – not only in private industry, but equally in other large-scale organisations, notably the nationalised industries and the large Trade Unions, where an alarming gap, marked by heavy suspicion on both

<sup>1</sup> The fact that this power resides as obviously in the public sector and the Trade Unions as in private industry shows how far removed the problem is from the traditional 'capitalist economic power' of pre-war socialist theory.

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sides, sometimes opens out between leadership and rank-and-file.

Again, this power is not exactly correlated with income. The heads of nationalised industries, top civil servants, and Trade Union leaders are paid salaries in no way commensurate with their position in the power hierarchy. (The case of Trade Union leaders is a fascinating example of the 'scatter' of high status attributes: in terms of lineage they might be considered working class, by income-standards or occupational status they are middle class, as judged by power they are indisputably upper class.) Even within industry, with the growth of specialisation, the new organisational or technical classes in the middle ranks of management may wield nearly as much power of this kind as higher-paid top executives, and certainly more than wealthier men in small-scale enterprises.<sup>1</sup>

Political power can also have an influence on class attitudes, but in a democracy only, I think, if one party remains in office for a long period. If the pendulum is swinging each five years, I doubt if the political factor exerts an independent influence, since political power is not then thought of as an attribute of any one class. But if one party remains in power (say) for twenty years, then attitudes become adjusted to that fact, and political power is conceived as being an additional attribute of the class on which that party is predominantly based.

Thus in Britain before the war, when Conservative Governments seemed the normal thing, collective feelings of superiority and inferiority were intensified by the belief that political power was an additional, semi-permanent attribute of a class which already appeared to possess all the other attributes of a ruling class. Conversely, in Sweden, the fact that a Socialist Government now seems the natural order of things has a profound effect in weakening collective class feelings, since at least the attribute of political power is differently located from the other attributes of the 'upper class'.

It creates, in other words, a definite 'scatter', and prevents a concentration, of 'top-class attributes'. The worker knows that

<sup>1</sup> 'Organisation people don't make the big money. But though it may be the automobile dealer and the owner of the local bottling franchise who drive the Cadillacs, it is the organisation man who now makes the decisions that most affect the lives of others. "Those fat cats around here are falling over themselves entertaining Charlie", says the wife of a plant engineer. "They could buy and sell us twice over, but he's going to decide the location of the new chemical plant."' (Quoted from 'The Transients', by William H. Whyte Jr., *Fortune*, May 1953.)



even though his income, occupational status, way of life, and whatever else, may be lower than those of his employer, yet ultimately his political power is greater; and the employer feels the same. Thus political power counterbalances the influence of other class determinants, and hence diminishes the likelihood of strong, coagulated class feelings. But this will occur only if the period of one-party rule is sufficiently prolonged to cause a definite adjustment in psychological attitudes.

There are still other aspects of power of great interest from the point of view of class, such as social power in a small community.<sup>1</sup> This is still immensely strong in English rural and country towns, where there exists a subtle and elaborate, but precise and universally recognised, hierarchy of social power, again not exactly correlated with income. But this sort of power is essentially a matter of rural or small-town class relationships; and in industrial Britain the nationally significant determinants of class must be sought in urban influences and attitudes. Moreover local power of this sort is much weaker now than fifty years ago, and it is doubtful if it would survive as an important independent influence on social stratification if the other determinants were not so strong.

It is therefore the first two manifestations of power which seem, under contemporary conditions, to be the most significant. They do not, of course, exhaust all that can be said about the relation of status to power; there are many quaint discrepancies tucked away in odd corners of the social map. Members of Parliament, for example, presumably on account of a certain limited access to power, achieve a social esteem which, although by no means high, is certainly higher than could be explained by their income, and is perhaps not wholly justified by their way of life and consumption habits.

But such deviant cases are not very common; and power now has its main impact on social stratification through either the 'face-to-face' or the remote strategic power characteristic especially of large-scale industry. This is a major influence on the degree of social inequality, and again one which will not be much affected by measures of income-redistribution.

<sup>1</sup> This was strongly emphasised by the Lynds in their Middletown studies, especially in relation to the position of the X family. (v. Robert S. and Helen M. Lynd, *Middletown* (Harcourt, Brace, 1929), e.g. p. 301, and *Middletown in Transition* (ditto, 1937), e.g. p. 91.)

VI *The Subjective Theory of Class*

But suppose that class is not objectively determined at all? Some sociologists now favour a 'subjective' theory of class, on the grounds that in practice people appear not to think and act alike, or to fall into social classes, merely because they have similar occupations or incomes or whatever it may be; nor does their account of the class system, when questioned, base itself on any such objective criteria.<sup>1</sup>

On this view, people belong to the class which they think they belong to, or are thought to belong to. Class is simply what people say it is; and the final criteria are the subjective evaluations and self-placements of the society itself, as expressed in such phrases as 'they belong to our set', 'they don't fit in with our crowd', 'we don't know her family', 'I never saw her socially in my life', 'they are ordinary people like us', 'you feel at home with them', etc.

'Classes are psycho-social groupings, something that is essentially subjective in character, dependent on class-consciousness (i.e. a feeling of group membership), and class lines of cleavage may or may not conform to what seem to social scientists to be logical lines of cleavage in the objective or stratification sense'.<sup>2</sup> This being so, one unravels the class system simply by asking people questions. 'In the final analysis', writes Lloyd Warner, 'individuals were placed by the evaluations of the members of Yankee City itself.'<sup>3</sup>

It is not quite clear what is meant by calling this a subjective view of class. Such a view, if the word is used in its normal sense, would appear to imply that a person belongs to a social class because he says, or thinks, that he does. This proposition is not often advanced, since it would almost imply that an individual can select which class he wishes to belong to, in which case the word class would surely lose all meaning. Surveys show, for example, that most people (though not, of course, the upper classes, nor occasionally, for opposite reasons, middle-class Labour M.Ps.) assess themselves as middle-class. But if a person says that

<sup>1</sup> v. Lloyd Warner, op. cit., Ch. V.

<sup>2</sup> Richard Centers, *The Psychology of Social Classes* (Princeton University Press, 1949), p. 27.

<sup>3</sup> op. cit., p. 90.

he is middle class, yet others whom he also considers middle class refuse to accept him as a social equal, or to mix with him socially, then his self-placement is not confirmed by society. The indispensable factor of social recognition is lacking; and his self-judgment is not a statement about actual stratification, but a personal aspiration. Thus merely because a group of people say that they are middle class, one cannot treat them as socially homogeneous if in fact they are manifestly scattered all over the social map.

But all that appears to be meant by the 'subjective' view is that people belong to a class if they say or think they do, *and are recognised by others as so doing*. This seems quite consistent with the definitions of class given at the beginning of the chapter; and there seems nothing in any 'subjective' view as such which casts doubts on the common-sense list of determinants given above.<sup>1</sup>

It is true that the method of asking people questions may give apparently different results if people are asked not merely *what* class they place other people in, but *why*. The answers to the first question may coincide with the results of applying the objective criteria, but the answers to the second may bear little or no relation to any objective indices. People may allege that they base their class judgments on *a*, *b*, and *c*; but we might observe that the stratification resulting from those judgments bore little relationship to *a*, *b*, and *c*, but was closely related to *x*, *y*, and *z*. Then factors *a*, *b*, and *c* are evidently rationalisations of the real determinants. No doubt such rationalisation is quite common.<sup>2</sup> But it in no way affects the possibility of unravelling the class system by an objective approach.

It therefore seems reasonable to conclude that class location

<sup>1</sup> The classification elicited by the 'subjective' method of asking people questions, and the objective method of applying external criteria, must of course correspond if the objective criteria are correctly chosen. Thus Lloyd Warner found that with the aid of certain objective criteria he could 'determine very quickly the approximate place of any individual in the society', even though he placed individuals finally according to the evaluations of Yankee City itself (op. cit., p. 90); indeed, the correspondence was so close that he could have abandoned the 'subjective' evaluations altogether. It is true that this particular correspondence has been criticised as being true only of the upper classes in American small towns (v. 'Social Status and Social Structure', by Seymour M. Lipset and Reinhard Bendix, *British Journal of Sociology*, June 1951). But this is only a criticism of the list of criteria; the correspondence would be equally true of a working-class area provided the criteria were correctly chosen.

<sup>2</sup> Kardiner gives an example from Plainville, where much lip-service was paid to morals as a criterion of class, although it did not in fact appear to determine class divisions in the slightest degree. It could hardly be said to be a determinant in Britain, in view of the frequent appearance in court of members of the upper class.

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is broadly determined by certain objective factors: that these factors will naturally vary through time, and between societies: but that the factors listed above, although they do not always coincide, appear to be the most influential in the advanced industrial countries of the West. At the same time, class attitudes may be subjectively explained or rationalised in rather different terms; and subjective collective evaluations are of course a necessary condition of people being *conscious* of class at all – without them, class would be not a social reality, but merely a formal construction of the social scientist.

### VII *Do Classes Exist and Do They Matter?*

Class, in the sense both of class-consciousness and the existence of clearly-defined classes, is an exceptionally marked phenomenon in British life. These two are not necessarily the same thing. We might have class-consciousness, but no classes. Professor Marshall has pointed out that in a socially heterogeneous community 'we may say that there is a national class system, in the sense, only, that class is a feature of the lives of all nationals, but that there are no national classes'.<sup>1</sup> The lines of class might be diagonal and criss-crossing, and the resulting sub-classes intermingle and overlap to an extent which, while it left plenty of scope for class feelings, did not allow the clear delineation of national social groups.

Whether national classes exist or not will depend on how far the separate determinants make a few broad and deep incisions into the social body, as opposed to innumerable shallow cuts; and how far these deep incisions coincide to form a single set of national divisions. Of course the coincidence will never be exact, as was made clear when the separate determinants were under discussion. But it does not follow from the existence of *some* overlap that every individual is merely an indeterminate bundle of conflicting social attributes, some belonging to a higher order and others to a lower, with no definite class location. If all the separate determinants are influential, it only requires a reasonable tendency towards coincident breaks and clusters for national classes to emerge.

<sup>1</sup> *Citizenship and Social Class*, p. 95.

This tendency is certainly evident in Britain. The hierarchies of education, occupational prestige, and style of life all show pronounced and visible breaks; and these breaks broadly coincide. They do so partly because they are causally related; a segregated three-tier system of education<sup>1</sup> imposes a corresponding pattern on the other two criteria. And inheritance is an additional factor making for correspondence. Of course ambivalent cases exist. But the correlation is sufficiently close to impart a strong significance at least to the tripartite division of working, middle, and upper classes. People accept this division subjectively as a reality; it influences their behaviour towards other people, and their social judgments. And it is objectively real in the sense that it would emerge, without asking people for their subjective evaluations, from the external application of at least the three criteria mentioned above (though not necessarily of the income criterion).

Even a somewhat more refined sub-division is not meaningless. People often employ a five-class framework when making social judgments (upper, upper middle, lower middle, upper working and working). This division also seems to have a genuine subjective and objective reality; people who speak in these terms are not saying things which their listeners fail to understand; and the factor of social recognition is clearly present. The indeterminate cases, of course, will now be more numerous. But even if they form quite a substantial minority, the 'tone' of social relationships will still be set by the majority whose class position is fairly unambiguous.

But why does the existence of classes and class-consciousness matter? It would matter rather obviously if it gave rise to a continuous, violent class conflict. But there is no necessary reason why it should. Of course different classes will always have divergent interests. They must compete over the distribution of class privileges, and each has a direct interest in preserving or improving its superior or inferior position. The consequence is a real class rivalry, either manifest or latent according to historical circumstances.

This rivalry is normally articulated in the political system. Except in those countries with deep religious or regional divisions,

<sup>1</sup> That is, public, grammar, and secondary modern (plus occasionally technical) schools.

political parties are usually horizontally based, each party drawing its main support from particular class strata in the population. In Britain, for example, Labour and Conservative voters are more accurately divided by the median line of class position than by any other single factor. This is not to say that class location alone determines political opinions, or that the correspondence is other than ragged and untidy. It is notorious that some 'middle-class' electors habitually vote Labour, and a great many 'working-class' electors vote Conservative. This proves (according to taste) that some people either do not know where their true interests lie, or that they know and act irrationally nevertheless,<sup>1</sup> or that they know but are quite rationally influenced by non-class factors.

Naturally a two-party system cannot reflect, say, a fivefold class division. Yet even a more refined class construction appears to be mirrored in political *attitudes*. If the entire upper one-third of the population is sub-divided into broad social categories, and these are arranged in descending series according to income and occupation, then the lower the category, the higher the ratio of Labour to Conservative voters.<sup>2</sup>

But the fact that classes have divergent interests, which are expressed in political terms, does not mean that violent class conflict is endemic in our society. The Marxist theory of class conflict was based on a theory of 'internal contradictions': 'the basis of the class struggle is the contradiction between material productive forces and existing relations of production'. No doubt this contradiction has existed at certain periods of history; no doubt also, even when it has not, class conflict can be all too easily induced by unbearable material conditions, or economic instability, or extreme contrasts between poverty and wealth. But neither the inner contradiction, nor any of these other factors, is present in Britain to-day; and the various changes described in Part One may be taken as excluding the likelihood of any explosive

<sup>1</sup> It is clear that no rational interpretation can explain *all* political behaviour. One cannot, for example, explain Communist or Fascist attitudes in terms which do not also explain the propensity of these parties, not shared by more moderate parties, to daub slogans on walls.

<sup>2</sup> v. John Bonham, *The Middle Class Vote* (Faber, 1954). Mr. Bonham's total 'middle class', defined as all those in non-manual employment and numbering with their families some 10 million voters, divided 3 : 1 in favour of the Conservatives in 1951. If clerks, small shopkeepers and similar groups are excluded, the ratio becomes 5 : 1; and if only well-to-do proprietors, managers and the higher professions are included, it becomes 12 : 1.

conflict. The dispute over the distribution of class privilege will remain pacific and tolerant, held firmly within the limits of democratic procedure.

But this greater equanimity of class relations does not necessarily lead to a *pro rata* diminution in class-consciousness, or even a blurring of class lines; and the reason why class matters in Britain is that a high degree of class-consciousness and a strongly-etched class hierarchy, such as we still have, at once implies and involves a correspondingly high degree of social inequality. Subjectively, it involves particularly strong collective and individual feelings of class position, which are at least potential causes of antagonism and resentment. Objectively, it implies wide gaps in respect of the various class determinants – income, power, style of life, and so on; and this in turn leads to an exceptional degree of cultural differentiation, and lack of uninhibited social intercourse between the different classes.

Now this state of affairs is not immutable. Nobody supposes, it is true, that class-consciousness can be wholly eliminated in any society. Nor is there any unit of measurement by which one society can be judged to be twice as class-conscious as another. Yet clearly subjective class feelings, and freedom of social intercourse, can be either greater or less; and on this basis descriptive and comparative statements about different societies are not meaningless. Thus it is not absurd to say that Elizabethan England was less of a class society than feudal England, or contemporary New Zealand than Egypt, or Illinois than New England, or Sweden than Great Britain.

Differences in the degree of class-consciousness and social inequality between different countries would appear to depend, according to the argument of this chapter, broadly on the following influences. (In practice of course these are mixed up; they are distinguished only for convenience.) First, the technological factor: the stage of economic development reached, and in particular whether the system of production is sufficiently primitive to give rise to a few clear-cut economic classes, each functionally related to the means of production, and to deal out goods in such meagre quantities as compared with people's aspirations that social attitudes are dominated by crude economic resentments.

Secondly, the mobility factor: the degree of vertical mobility between classes, and the area of free social movement. Clearly

the greater the mobility, the greater the degree of social equality and free social intercourse; and the less the social system will be frozen into clearly defined and sharply separated strata.

Thirdly, the distance factor: the extent to which the various determinants of class make deep incisions, the social distance between these incisions, and generally the length of the status ladder in each of the separate spheres. These determinants, as listed earlier, are monetary wealth, occupational prestige, education, style of life and consumption habits, and power (of which the middle three appear in Britain to be the most important and the most closely correlated). To a greater or lesser extent, the scatter or concentration of these determinants is under social control; and a society therefore has it within its power, if it so wishes, at least to influence the degree of class-consciousness and inequality.

The discussion of class does not of course exhaust the subject of social equality. Even if national classes were to wither away, a status hierarchy of some sort would still exist; for any society must have some structure of conventional and accepted rankings. It is conceivable that such a status hierarchy might be as rigid and unequal as the class hierarchy which it supersedes. This is perhaps unlikely in practice; it is hard to believe that the disappearance of broad class demarcations, and their replacement by a continuous series of status gradations, would not diminish social inequality.

But if it does not, or if it still leaves too great a gap between the top and bottom of the status scale, this will make little difference to the direction of policy. In any given country, either a clear class stratification, or extreme status inequalities, are likely to rest on the same broad set of social factors; and whether one is interested in class-consciousness as such, therefore, or in inequalities of status in some more general sense, the programme of action for an egalitarian will be much the same.



## IX

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### THE CASE FOR SOCIAL EQUALITY

#### I *The Economic Welfare Argument*

IT still has to be shown that more equality would be a good thing. This cannot now be demonstrated by certain economic arguments which were often used before the war.

At any time up to 1939, the case for greater equality, at least of incomes, seemed self-evident. By making the rich less rich, the poor could be made less poor; and to all those with a social conscience this seemed a sufficient and conclusive argument. It appealed to every humanitarian sentiment, and to ordinary feelings of justice and compassion; while on the intellectual plane it was reinforced by the powerful influence of utilitarian thought. Poverty in the midst of plenty seemed obviously repugnant, and great wealth a disgrace because it appeared the cause of great poverty. To take some caviar from the rich, and distribute it in bread to the poor, was a clear moral imperative.

But we have now reached the point where further redistribution would make little difference to the standard of living of the masses; to make the rich less rich would not make the poor significantly less poor. If we distributed all surtax incomes amongst the working class, the latter would gain by at most a few shillings a week per head; and nobody supposes that even this is possible in practice. The main prop of traditional egalitarianism has been knocked away by its own success.

Further redistribution therefore cannot be clearly justified by

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the once-popular argument that to take £1 away from a rich man, and to give it to a poor man, will manifestly increase economic welfare. It is not that the argument itself has become untrue, but simply that if we are considering vertical redistribution *between entire social classes*, there are too few pounds. When the pound taken from the millionaire has to be spread in farthings amongst 960 beneficiaries, the welfare criterion inevitably gives an ambiguous answer; and few people would judge that a clear gain would result.

There is the further difficulty that any practicable redistribution, now that the extremes of wealth are so much less marked, would never be simply between rich and poor, but would also affect much larger numbers of intermediate people; and here it would be singularly hard to measure the gains against the losses. Generally, the further away we move from extreme inequality, the harder it becomes to draw up any agreed balance-sheet, and the more likely people are simply to differ hopelessly about whether economic satisfaction would or would not be increased by further vertical redistribution.

The traditional welfare argument, therefore, while it still justifies selective measures of redistribution towards small groups whose average gain might be significantly large, no longer clearly justifies overall measures of vertical redistribution; and one cannot state unequivocally that a greater equality of income will increase economic welfare.

Then what is the justification for continuing to preach greater equality? Why should the much-taxed rich, who have already lost so much, be further milched, if the result is not to be a clear increase in welfare? Socialists have been slow to realise that these are serious questions (especially now that they are backed by plausible arguments about incentives and personal savings); they often continue to speak as though the egalitarian case still rested on a self-evident proposition about welfare.<sup>1</sup> But in fact if we want more equality, the case for it must rest on statements largely, if not entirely, unrelated to economic welfare.<sup>2</sup>

<sup>1</sup> cf. the statement in *New Fabian Essays*: 'The more evenly wealth is divided the more welfare it will promote' (p. 71).

<sup>2</sup> Another economic argument often used before the war has also lost its force: namely, that a greater equality of wealth, because it would raise consumption at the expense of saving, was essential to full employment. To-day the problem is to increase, not diminish, savings.

II *The Personal Envy Argument*

Nevertheless the case can still rest firmly, as I believe, on certain value or ethical judgments of a non-economic character: on a belief that more equality, even though carrying few implications for the sum of economic satisfaction, would yet conduce to a 'better' society. This I believe to be so for three reasons, relating respectively to the diminution of social antagonism,\* to social justice, and to the avoidance of social waste. These will be considered in turn.

Extreme inequalities can obviously give rise to antagonism by evoking purely *individual* feelings of frustration, envy, and resentment. In the past, such feelings have usually been associated with glaring inequalities of wealth. Even economists have long realised that high consumption by the rich cannot be treated in isolation as merely giving a certain quantum of satisfaction to the rich consumers; it also has consequences for other people's states of mind. 'The affluence of the rich', wrote Adam Smith, 'excites the envy of the poor, who are often both driven by want and prompted by envy to invade his possession.'<sup>1</sup>

In contemporary Anglo-Saxon society the poor are no longer driven by want to invade the possessions of the rich; and I doubt whether at present levels of real wages they are individually much prompted by envy. Contrasts in wealth, taken in isolation, do not now seem to cause widespread resentment. The ordinary worker feels no very bitter antagonism to the ostentations of a George Dawson or a Lady Docker (though he feels a great deal to any suggestion of higher salaries for his Trade Union leaders; while the whole population becomes consumed with rage at the idea of paying M.Ps. £1,500 a year).<sup>2</sup>

<sup>1</sup> *The Wealth of Nations* (Methuen, 5th ed.), p. 203.

<sup>2</sup> Some people think that the external economies of high consumption now actually outweigh the diseconomies – that the poor derive so much beatific happiness from swooning over the gold-studded adventures of Aly Khan or even Diana Dors, or from standing in pouring rain to watch a fashionable wedding, that they would be very upset if these activities were curtailed. No doubt some innocent pleasure is given by such goings-on. But one need not worry that any conceivable degree of equality will bring them all to an end. Even if all the present inmates of *The Tatler* were to be thrust down into poverty, and all Dukes to disappear below the median line of income, we should still have plenty of attractions; film stars, for example, will surely prove invulnerable to social change, and will continue, though with incomes somewhat pruned, to show an undiminished zest for glamorous (if transient) matrimonial adventures.

But there is a good deal of resentment still at non-pecuniary inequalities. Many workers become exceedingly irritated at the social privileges of the staff within their own factories, and at the general implication, conveyed in a hundred little ways, that 'staff' represent a higher social class than 'labour'. Even more evident are the resentments at educational disparities: of the able self-made man at the culture, the smooth assurance, and the better prospects of the public-school boy whom he feels has had, though no more gifted than himself, an undeserved and flying start in life: and above all of the parents whose son has failed the grammar school examination, and who, unmollified by the seeming justice of the process of selection, resent that he should be condemned so young to an inferior education, worse prospects, and a lower social status. And these feelings are neither unnatural nor deplorable, but based on a simple view of what is just and fair.

How widespread these personal frustrations, directly traceable to social inequalities, are in Britain, no one of course can say. One could argue indefinitely to and fro, with a socialist perhaps taking one view, and an upper-class landowner, pointing to his placid self-contained village community, with its contented tradesmen, devoted household staff, and almost patriarchal atmosphere, taking the opposite one. At any rate, there would be too much doubt and disagreement to justify an egalitarian policy simply on grounds of personal resentments.

### III *The Persistence of Collective Resentments – Bevanism and Industrial Discontent*

But what cannot be disputed is the widespread persistence of *collective* manifestations of discontent, which occur when resentments are articulated in, and then fed by, overt, explicit group hostilities.

Such hostilities are most apparent in industry, where they express themselves in unofficial strikes, lack of co-operation, and a general atmosphere of suspicious antagonism. I do not, of course, mean to suggest that industrial relations are worse in Britain than in most other countries – they are not. And they are infinitely better than they were 20 or 30 years ago. But are they not worse

than one would expect, considering the absence of the normal economic irritants? Traditionally, industrial antagonism is caused by unemployment, poverty, falling real wages, or a wage offensive by employers. None of these causes is present, yet a surprising amount of unrest persists. This surely suggests that it has not an economic, but a sociological origin; and it is significant that with a few exceptions, such as the railways, there is little correlation between low wages and bad relations. Rather, indeed, the reverse; those industries the most susceptible to wild-cat strikes – coal, docks, and the metal and engineering trades – are exceptionally high-wage occupations.

A parallel phenomenon is apparent in the political sphere. A country's political deportment, and the atmosphere of its debates, will normally reflect – allowing, of course, for the vagaries of national character – the degree of underlying social tension. Now British Parliamentarians are well accustomed to receiving, and graciously acknowledging, the admiring congratulations of foreign visitors on the tolerant and friendly atmosphere of the House of Commons, the gentlemanly conduct of debate, the inter-party social intercourse, the absence of fisticuffs and unruly scenes; and undoubtedly these agreeable features of our political life are conspicuous by international standards.

But before we deduce from this the absence of serious social tensions, we must consider whether these easy-going inter-party relationships are not misleading, inasmuch as they distract attention from the true locus of political bitterness, which is now within the Left itself. The most angry quarrels in recent British politics have erupted not in the Chamber of the House of Commons, but in upstairs committee rooms, at the annual Labour Conference, and in local Party meetings.

These quarrels on the Left were particularly violent for some years after 1951. It is difficult to argue that they were *about* anything real, or that the so-called Right and Left were genuinely divided by serious, clear-cut policy differences.<sup>1</sup> But this is irrelevant; bitter or resentful feelings often fail to clothe themselves in cool, rational statements of policy. It is the depth of the bitterness, and not its verbal formulation, which is significant; and this

<sup>1</sup> Consider the ludicrously disproportionate fury aroused in 1951 by a dispute as to whether £300 millions more or less should be spent on armaments out of a national income of £13,000 millions.

was abundantly displayed during the ugly, long drawn-out history of the 'Bevanite' dispute.

This bitterness is only a reflection of a curiously strong tendency within the Labour Party towards a suspicious, militant, class-conscious Leftism.<sup>1</sup> It is a tendency which goes too deep to be explicable merely in terms of the brilliant personality of its most recent mouthpiece – Mr. Bevan only articulated a resentment which was already there. Nor can it be explained away as an inevitable reaction to Britain's changed and vulnerable position in a world dominated by America, Russia, and the hydrogen bomb. Certainly anti-Americanism, and a vague semi-pacifism and semi-neutralism, are obvious symptoms of the mood; anti-Americanism in particular is an almost universal left-wing neurosis, springing from a natural resentment at the transfer of world power from London to Washington, combined with the need to find some new and powerful scapegoat to replace the capitalists at home, their utility in this role being much diminished under full employment and the Welfare State.

But the world situation cannot provide the basic explanation. The actual divergences between Left and Right on defence or foreign policy were often far too trivial to account for all the bitterness; moreover this would not explain why it should be concentrated in particular social groups and at a particular point in the political spectrum. Anti-Americanism and anxiety over nuclear weapons are no more the real explanation of militant Leftism, than anti-Communism is of American McCarthyism; in both cases these are simply rationalisations of some deeper discontent.

The persistence of so much political resentment in Britain is surely surprising. Of course it is less marked than in certain Continental countries, and than it was before the war – but so it should be. One does not expect all countries to run the same political temperature at all times. We should expect extremism to be rampant, and tempers high, in societies suffering from unemployment, or low living standards, or huge disparities between wealth and poverty. But we should not expect it in countries enjoying, as Britain does, full employment, social security, rising

<sup>1</sup> I use the terms Left and Right only as they are now conventionally, though oddly, applied. In fact if Left is taken to imply intellectually radical, and Right intellectually traditional, they should be transposed in their application to the two wings of the Labour Party.

real incomes, and (by historical standards) a marked equality in the distribution of incomes. (Or we might expect it in countries suffering from violent ethnic, racial, or religious tensions; but Britain is fortunate in being immune from all of these.)

And it is significant that the Scandinavian countries, which have broadly the same political and economic climate, can show no similar degree of bitterness on the Left, and no parallel to our militant Leftism. Is it just an accident that the one respect in which they differ conspicuously from us is in the degree of social equality and class stratification?

It seems at least conceivable that the persistence in Britain, despite all the social and economic improvements of the last two decades, and in the face of a naturally amiable and even sunny national character, of so much resentment, so many unofficial strikes, so many touchy, prickly, indignant and frustrated citizens in politics and industry, with grudges against society and grievances at work, sending telegrams and passing angry resolutions, flocking to meetings not with badges, but with chips on their shoulders, peevishly waiting for someone to knock them off: that this can be traced to underlying sociological causes, and partakes, even if often sub-consciously, of that resentment against social inequality which is characteristic of class antagonism.

## IV *The Theory of Social Politics*

The possibility of a sociological cause has been rather neglected in this country, where we still tend to assume that politics, and industrial relations, should be interpreted in basically economic terms. But whatever may have been true in the past, we must now distinguish between what may loosely be called Economic Politics and Social Politics. I do not mean that the distinction is ever complete or clear-cut, only that there is a definite bias in one direction or the other.<sup>1</sup>

Economic Politics are characteristic of any country or situation to which a Marxist analysis might plausibly be applied. Thus they

<sup>1</sup> Some American writers, with broadly the same ideas in mind, have distinguished between class politics and status politics. (v. *The New American Right*, ed. Daniel Bell, Criterion Books, New York, 1955.) I am not sure that this is a wholly satisfactory distinction. But the analyses in Mr. Bell's book of the social roots of McCarthyism (especially the essays of Professors Riesman, Lipset, and Hofstadter) have greatly helped to clear my mind on this whole subject.

## THE CASE FOR SOCIAL EQUALITY

are typical of periods of growing pauperisation, depression and mass unemployment, falling real wages, and a sharp polarisation of classes. It is at such times, when a direct clash of economic interest occurs between clear-cut productive classes against a background of material scarcity, that economic issues are the main determinant of political attitudes.

Social Politics are characteristic of periods of prosperity, rising incomes, full employment, and inflation, when attention is diverted from economic to social issues not only for the obvious reason that as living standards rise, and the problem of subsistence fades away, people have more time and mental energy to spare for non-economic discontents, but also for another reason.

Prosperity is typically associated with rapid economic change – either the sharp change from depression to boom, or the steadier change characteristic of any period of rapidly advancing technology. Such changes inevitably cause large shifts in relative incomes. As a result, the income hierarchy gets out of alignment with the class or social hierarchy. The latter, based on socially recognised evaluations having deep roots in the past and backed by a heavy weight of tradition, cannot adjust itself with sufficient speed to changes in the former. Consequently, some social groups feel that their position in the social hierarchy is not commensurate with their new and higher income status, while others feel that their worsened relative incomes are not commensurate with their traditional position in the social hierarchy. Such feelings are exceptionally productive of class tensions and resentment, although these will not be located, as they are under Economic Politics, in the worst-off, but in relatively well-off sections of the population.

Examples of the latter groups, which feel their social position menaced, not indeed by absolute poverty, but by the prospect of humiliating relegation as previous social relationships are disturbed by economic change, are certain sections of the European middle classes in the 1920s, threatened by inflation and turning to Fascism to protect their class position; or the old-family Anglo-Saxon upper class in the United States, left far behind in the economic race, steadily losing its erstwhile dominance to newer immigrant groups and the rising industrial middle class, and expressing its resentment in vehement support for the extremist wing of the Republican Party: or, in Britain to-day, certain salaried classes (e.g. teachers) or skilled groups (e.g. composers,



or members of A.S.L.E.F. on the railways) whose differentials have been narrowed by inflation, and whose relative income-position is much worse both than it was before the war and than the degree of skill would appear to justify: or, again, the lower managerial grades in industry, who, having now lost much of their income-advantage over the wage-earners, react by emphasizing their social, non-pecuniary higher status.

Examples of the former groups, whose economic status has risen without a corresponding promotion in the social scale, are any *nouveau-riche* business class suddenly enriched by inflation or full employment, from Texas oil millionaires to small shopkeepers or sole proprietors, now highly prosperous but still socially insecure, feeling themselves slighted both by the gentry and the intelligentsia, envying the self-assurance of the one and the culture of the other, and growing resentful at their lack of social recognition: or, as so often in the U.S.A., immigrant groups of workers, for long excluded from the better occupations, who, having now finally achieved a satisfactory economic status, yet still encounter social snobbery and disdain from the native stock, and turn angrily to McCarthyism to demonstrate their 100% Americanism: or, again, certain fortunate sections of the working class suddenly propelled by full employment towards an altogether higher income status than any to which they had previously aspired, yet still labelled and looked upon as 'working class' or 'labour'; or, more generally, that section of the working class whose earnings rise most rapidly at a time of rising productivity.

Surely it is these last two groups which, in Britain, are now the main source of both industrial and political discontent.<sup>1</sup> On the industrial side, the industries with the worst relations, and the most susceptible to outbursts of antagonism, are the coal-mines, the docks, and sections of the engineering trades. It is significant that the workers in these industries not merely enjoy exceptionally high wages, well above the average for industry as a whole, but have experienced a notable *relative* rise in the income structure without, however, gaining correspondingly in social prestige. The result is a marked discrepancy between the new economic and the old social status.

<sup>1</sup> Though a subsidiary source is to be found in the penultimate one of the groups mentioned earlier (e.g. skilled railwaymen and teachers).

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May this not be the fundamental cause of these industrial discontents? Certainly this view finds support in such few sociological studies of these industries as have yet been made. 'The miner still believes', wrote Mr. Zweig, 'that both the public and the management are against him, and he has the nobody-likes-me feeling. He still remembers all the sayings against him and all the catch-phrases used by the snobbish "petty bourgeois". . . . He was, and as a matter of fact still is, looked down on. . . . Even his own son who has managed to get away from the mines might look upon his father as someone who was unable to do better. . . . Probably as this inferiority complex has developed it has by way of compensation become a superiority complex expressed in the aggressive attitude which the miners sometimes assume.'<sup>1</sup>

Another study speaks of 'the belief that the public regards the miner as an inferior type of being and almost a social outcast. These are strong words, but nothing weaker will convey the intensity of the miners' convictions. . . . Many of the apparently futile quarrels over wages are expressions of a feeling that the men's services, and hence the men themselves, are undervalued. . . . The absence of baths was seen as a social stigma rather than a physical inconvenience. In the same way, the proposal to employ Poles or Italians in the pits is interpreted as an insult; what they really resent is the suggestion that only unemployed foreigners can be conscripted to do the miner's work.'<sup>2</sup>

The same concern with social status emerges in the docks. 'The attitude of other people towards them has created widespread resentment among dock workers and provoked them to aggression and hostility which on occasion has led to outbreaks of violent or anti-social behaviour. . . . In spite of the improvements in wages and conditions which have taken place dock work still remains a relatively low-status occupation. . . . For their part, the dock workers have become more self-conscious.' Thus they excused themselves for being dock workers, and 'some of those with children at grammar schools admitted that they had told the children to do their best to conceal the fact that their fathers were dock workers.'<sup>3</sup>

This combination of a newly-won high income status, and an

<sup>1</sup> F. Zweig, *Men in the Pits* (Gollancz, 1948), pp. 17-18.

<sup>2</sup> *The Worker's Point of View* (Acton Society, 1952), pp. 11-12.

<sup>3</sup> *The Dock Worker* (Liverpool University Press, 1954), pp. 50-1, 55-6.

apparent obsession with low social status, is significant. And it is noticeable that even outside the mines and docks, a large proportion of disputes are not only in high-wage industries, but also are not concerned with wages or conditions at all. Rather they revolve around points of prestige and power: the failure to consult about overtime, the rights of shop-stewards, the dismissal of workers, the choice of foremen, and questions of discipline generally – all issues which appear to reflect a feeling amongst well-paid workers that their economic importance is not properly reflected in an enhanced social status and dignity.<sup>1</sup>

Militant Leftism in politics appears to have its roots in broadly analogous sentiments. Every Labour politician has observed that the most indignant members of his local Party are not usually the poorest, or the slum-dwellers, or those with most to gain from further economic change, but the younger, more self-conscious element, earning good incomes and living comfortably in neat new council houses: skilled engineering workers, electrical workers, draughtsmen, technicians, and the lower clerical grades. (Similarly the most militant local parties are not in the old industrial areas, but either in the newer high-wage engineering areas or in middle-class towns; Coventry and Margate are the characteristic strongholds.) Now it is people such as these who naturally resent the fact that despite their high economic status, often so much higher than their parents', and their undoubted skill at work, they have no right to participate in the decisions of their firm, no influence over policy, and far fewer non-pecuniary privileges than the managerial grades; and outside their work they are conscious of a conspicuous educational handicap, of a style of life which is still looked down on by middle-class people often earning little if any more, of differences in accent, and generally of an inferior class position.

It is, I think, this failure of social assimilation which creates antagonism, and explains its concentration in those groups which have risen or are rising economically, but whose social aspirations seem somehow blocked by our deeply-set class stratification.<sup>2</sup>

<sup>1</sup> Alternatively the disputes are inter-Union ones (as recently in printing, railways, and shipbuilding), and due to the resentment of skilled workers at their loss of (relative) economic status as a result of inflation.

<sup>2</sup> It is sometimes said that there is no particular significance in this concentration of militancy in the better-paid section of the working class, since the skilled artisan class has historically always provided the radical and militant leadership for the

## THE CASE FOR SOCIAL EQUALITY

Poised as we are halfway between extreme inequality and genuine equality, we seem to be getting the worst of both worlds. Again one reverts to the contrast with Scandinavia, where, in societies with less rigid class divisions, people of equivalent economic status have a relatively much higher social status; and one remarks again the freedom of those countries from any corresponding discontents.

Of course one cannot prove that this interpretation is correct. The explanation might be simpler – the dogged survival, for example, of bitter memories of past industrial conflicts and injustice, or merely a failure to eradicate Communist influence. But the *prima facie* evidence is surely strong.

### v *The Ideology of Class Betrayal*

It is confirmed, I believe, by the persistence, amazing in the light of the changes described in Part One, of an unusual British phenomenon, the Ideology of Class Betrayal or Contamination.

By this I mean the touchy, defensive, almost neurotic fear that 'the class enemy' will somehow fatally weaken the working class, either by seducing its leaders away or insidiously corrupting their minds. This in turn sets up a defence mechanism, of which the most obvious manifestations are the deep hostility, couched in the language of class betrayal ('he's gone over to the boss's side'), shown to the worker who takes a supervisory or managerial post, and the antagonism towards Trade Union leaders, previously trusted figures, who 'go over' by becoming members of Nationalised Boards.<sup>1</sup> Even ordinary Trade Union officials are sometimes suspected of contamination if their way of life, their cars,

workers. But there is no evidence for this in British labour history. During the latter half of the last century, the skilled workers, typified by the Amalgamated Society of Engineers, stood throughout for extremely moderate policies; while the more radical New Unionism which sprang up in the 1880s drew its support from the unskilled and worst-paid workers. The exceptionally militant industrial action of the immediate pre-1914 years was again concentrated in relatively low-wage industries; while throughout the inter-war period it was the miners, then almost the worst-paid section of the working class, who were always the most radical element.

<sup>1</sup> One catches occasional hints of a parallel attitude on the other side, as when prominent socialist Old Etonians are labelled 'traitors to their class'. But whether due to the fewness of such hybrid creatures or the greater self-confidence of the upper classes, this attitude is not now very widespread.

or their incomes are thought to approximate at all closely (which they never do) to those of the employers.<sup>1</sup>

This attitude is absurdly irrational to-day, whatever might have been its justification 50 years ago.<sup>2</sup> It implies that the interests of labour and management must under all circumstances conflict, whereas everyone now recognises that although they may diverge (as over the wage bargain), they may also coincide (as over higher productivity). Nobody now rationally believes in a theory of irreconcilable conflict, or that anything which helps the management must *ipso facto* hurt the workers, or that the most efficient workers should not rise as fast and as far as they can, or that Nationalised Boards should be empty of Trade Union representatives; yet each of these beliefs is implicit in the ideology of class betrayal. (This ideology is thus wholly inconsistent with the reiterated claims, often made by the very same class 'patriots', that *more* managerial posts should be filled by workers, and *more* Trade Unionists be appointed to Nationalised Boards.)<sup>3</sup>

And even if the lines of labour-management conflict were more clearly drawn than in fact they are, such defensive fears would still be quite disproportionate in the light of the present massive strength of the working-class movement. They might be warranted if the working class had its back to the wall, and was in imminent danger of defeat—in such a situation all kinds of nervous and suspicious doubts are natural. And indeed an ideology of betrayal and contamination is historically characteristic of minority racial or religious groups fearing persecution, or the loss of their identity by absorption into some larger mass. So some Negroes in the U.S.A. have a touchy suspicion of anything

<sup>1</sup> It would be unthinkable in England for Trade Union leaders to be paid the sort of salaries which are quite normal in the U.S.A. Mr. Beck, for example, the head of the Teamsters' Union, in addition to a salary of \$50,000 a year, lives rent-free in a \$160,000 house bought by the Union, not to mention having a Union-owned Cadillac, plus caterers and gardeners as needed. 'It's a lovely place', says Mr. Beck. 'Downstairs I have an office and a bar, a movie-projection room, and a pool table. . . . There are two two-car garages, a swimming pool and a bath house.' (Quoted in *Fortune*, September 1955, pp. 84-5.) No doubt this is an extreme example; but the contrast in attitudes between the two countries is still violent.

<sup>2</sup> It is also extremely wasteful when it prevents, as it often does, ex-Trade Unionists who have worked their way through University from coming back to responsible positions inside the Trade Union movement. Such people are positively forced into 'bourgeois' occupations. The American Unions gain tremendously in effectiveness through not having such inhibitions.

<sup>3</sup> cf. the furious outcry amongst political militants against Sir Stafford Cripps when he once ventured to suggest that there were not sufficient trained and educated workers to make a success of workers' control.

which smacks of 'Uncle Tomism', and a nagging fear that their leaders or popular successes will be seduced into racial treachery by the white man's glamorous culture;<sup>1</sup> so in the face of anti-Semitism a section of Jews will aggressively over-emphasise their Jewishness; and so devout religious sects will lay down all manner of detailed prohibitions to prevent contamination by 'the world'.

But such desperate protective safeguards become absurd in a situation of strength; and there is something almost comical – though also highly damaging to the socialist ideal – about the entrenched and unassailable British working class displaying a deep sense of injury and betrayal when some of its members are rash enough to take the slogan of equal opportunity seriously.

Yet the persistence of this mood, despite its obvious irrationality, is significant. Reflecting as it does a deep-seated social insecurity and lack of confidence, it is eloquent of the strength of class-consciousness, and lends credence to the view that our class stratification is a direct incitement to social antagonism and resentment.<sup>2</sup>

## VI *Socialism, Human Nature, and Social Contentment*

But it is sometimes said that one is doing something disgraceful, and merely pandering to the selfish clamour of the mob, by taking account of social envy and resentment. This is not so. These feelings exist, amongst people not morally inferior to those who administer such high-minded rebukes; and they are quite natural. It is no more disgraceful to take them into account than many other facts that the politician must attend to – such as the greed of the richer classes, who claim they must have higher monetary rewards and reduced taxation as an incentive

<sup>1</sup> cf. the sporadic attacks in the Negro press on Miss Eartha Kitt for her alleged preference for going out with white men rather than with members of her own race.

<sup>2</sup> There are some counterparts to these feelings at the upper end of the social scale, though for obvious reasons they are much less strong. One is a sense of guilt about the contrast between riches and poverty. Mr. Stephen Spender, speaking of his early political days, writes that 'I was driven on by a sense of social and personal guilt'. (*The God That Failed*, Hamish Hamilton, 1950, p. 271); and it was such a feeling that explained the almost mass appeal of the Popular Front and the Left Book Club in the 1930s to the comfortably-off classes. Of course it needed an unusual combination of circumstances to cause a guilt neurosis on so huge a scale; and the feeling is much less strong amongst the rich to-day – partly because unemployment and poverty have so largely disappeared, and partly, no doubt, because they feel they have expiated their guilt by (reluctantly) accepting surtax rates of 19s. in the pound.

to greater effort, patriotism being evidently not enough. If all envy (or all rapacity) could disappear by a wave of the wand, or by the peripatetic performance of Buchmanite plays, then well and good. But as it will not, it is a social fact of cardinal importance; and since it makes society less peaceful and contented, it is wrong not to try and adjust affairs in such a way as to minimise the provocation to it.

In fact, of course, the envy often takes a form which by no extreme of bigoted intolerance could be condemned as cupidity or selfishness, as when it is inspired by inequalities of educational opportunity. The upper and middle classes think it not reprehensible, but the mark of a good parent, to show anxious concern over a child's education and future prospects. They would be unwise, then, to censure the envy of working-class parents for the better education, the wider vistas, and the superior prospects of richer children than their own.

When discussing these aspects of social character, we are not dealing with necessarily immutable or ineradicable facts of 'human nature'. Social anthropology has at least shown that human temperament and social traits are not universal and eternal, but differ from one culture to another; and that these differences are not all biologically transmitted in the chromosomes of each particular race, as implied in theories of racial heredity, but are, partially at least, culturally selected.<sup>1</sup> There is, of course, some hereditary transmission of physical and biological traits; but it is not now thought that this can explain all the social and cultural differences between races disclosed by anthropological study, still less the changes through time in the social character of any one society.

This view is also supported by the group experiments of social psychologists,<sup>2</sup> which suggest that social influences may be decisive even in such basic spheres of behaviour as honesty and dishonesty — 'there are not honest-dishonest persons, but honest-dishonest situations':<sup>3</sup> and certainly that they determine whether group behaviour is aggressive or co-operative, resentful or contented, democratic or authoritarian. Of course one cannot make

<sup>1</sup> r. Ruth Benedict, *Patterns of Culture* (Routledge, 1935), or Margaret Mead, *Male and Female*.

<sup>2</sup> r. Kurt Lewin, *Resolving Social Conflicts* (Harper, New York, 1948), especially Chs. 5 and 7.

<sup>3</sup> Benedict, *op. cit.*, p. 170.

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precise and dogmatic statements about detailed cause and effect; and often, as in the case of the 'social' motives and relations discussed in Chapter V, we cannot see how, or within what framework, a change in attitudes could be effected. But in this case, not only is it clearly possible to have either more or less social equality, but the evidence for linking cause and effect seems rather strong – especially in the light of the relative absence of corresponding collective resentments in Scandinavia, and the lesser social envy and class resentment in North America. This suggests some connection at least with the degree of social inequality and class stratification.

Thus the ethical basis for the first argument for greater equality is that it will increase social contentment and diminish social resentment. Such a statement could be purely descriptive; that is, there could exist such differences in the objective conditions under which individuals lived in two societies that they manifestly constituted a difference in the contentment of those societies. In practice, this degree of objectivity is lacking; and such a statement therefore becomes, partly at least, a value-judgment with a strong recommendatory force. It is justified, first, by the ethical premiss that a contented society is better than a discontented one, and secondly by the judgment that the contentment of the community is an increasing function of the contentment of individuals. It then rests on the hypothesis, which I have argued in this chapter, that some at least of our collective discontents can be traced to social inequality, and would be diminished if that inequality were less: and on the further hypothesis that the consequent gain in contentment would outweigh the diminution in contentment of the present privileged classes.

Because these are not purely factual or descriptive statements, but contain a strong value element, it does not follow that they are any the less significant. Any statement about the contentment or welfare of the community is of this kind – statements against, just as much as statements in favour of more equality. But some judgments have to be made, whatever the uncertainties. We have to have either more equality, or less, or the present amount; and politicians, in deciding which of these is the correct objective, must make some supposition about the welfare of the community. They have no excuse, merely because such statements



can easily be shown to be of an ethical nature, for evading this responsibility.

It is to be noted that these statements are not statements about personal 'happiness'. We might diminish the extent of *collective* antagonism and resentment, and so increase social contentment, without increasing the sum of *personal* happiness in the community.

Most early socialists, it is true (and certainly Robert Owen), thought that the relation between socialism and happiness was direct and simple. They assumed that as society progressed in a socialist direction, it would more and more take on that Utopian quality described by William Godwin as 'most conducive to the extensive diffusion of felicity'; people would grow perfectly happy, all frustration and ill-will would fade away, and we should have an earthly paradise, a city of brotherly love. All unhappiness was attributed to social causes, and social change was believed to be a cure for any moral or psychological disorder.

Few people would take such a simple view to-day, if only on account of two difficulties. First, while it is not unreasonable to make the judgment (and indeed people do constantly make such judgments) that one society is more socially contented than another, in the sense of showing less social antagonism, collective resentment, and political bitterness, it would be rather difficult to say that individuals in one society were on the average happier than individuals in another. This is not because the word 'happiness' is necessarily ambiguous — on the contrary, people will often agree on whether a person is happy or not, and even that A is happier than B: but because of the utter impossibility of making judgments on this point about entire societies.

Secondly, even if such judgments were possible, we still know too little about the relation between personal happiness and the cultural-social background to be sure what influence changes in the latter will have on the former. Thus one might take an extreme early-Freudian view, and largely dismiss cultural factors altogether. We all know now that people rationalise, and that their overt and conscious reasons are a bad guide to their 'real' sub-conscious reasons. One might then argue that envy and resentment were only rationalised in social terms, and in reality were rooted in infantile experiences or sexual deprivation. Or one might adopt the attitude of those social anthropologists who argue

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that social traits are implanted by particular methods of suckling, weaning, and rearing new-born children, and are only indirectly dependent on wider social factors.

Such theories would imply in effect that a constant amount of discontent or frustration was endemic in society, or at least that the amount was impervious to social or economic reform. The only effect of such reform would be to alter the *direction* of the discontent, so that whereas previously it was externalised, and canalised into collective political and industrial antagonisms, now it became internalised in largely personal frustrations. In other words, if there were fewer political or social foes to act as the objects of psychological transference and compensation, new and purely personal objects would be found; but the amount of frustration would remain the same.

Even if this were true, I should not think that it destroyed the case for greater equality. For one thing, this can perfectly well rest on statements about social justice and social waste, discussed later in this chapter. But in any event collective resentments, articulated in group hostilities, have two especially undesirable characteristics as compared with purely personal ones. First, through the very fact of being collective, they feed on themselves, and become magnified and extended; and secondly they threaten, in a way which purely random personal frustrations do not, other exceedingly important values – democracy, social and industrial peace, tolerance, and even personal freedom.

But in fact I find it hard to accept the notion of a constant amount of discontent. I believe, on the contrary, that many of our collective resentments reflect – as does in certain countries the existence of a large Communist Party – a genuine and natural, even though largely sub-conscious, reaction against class stratification and inequality: and that these latter must breed tensions which manifest themselves in envy, resentment, and antagonism. As a famous psycho-analyst has written, 'existing gross inequalities, not only in possessions but in possibilities for education, recreation, maintaining and regaining health, constitute a group of factors replete with potential hostilities'.<sup>1</sup> Of course not all hostilities can ever be eradicated. But those which have a social cause can at least be reduced by social action; and this I believe to constitute the first argument for more equality.

<sup>1</sup> Karen Horney, *New Ways in Psychoanalysis* (Kegan Paul, 1939), p. 173.

VII *Equality and Social Justice*

The second argument rests on a view of what constitutes a 'just' distribution of privileges and rewards. Being in essence a simple moral judgment, it is not susceptible of proof or disproof; it must be accepted or rejected according to the moral predilections of the reader. But there appear to me to be four respects in which existing inequalities offend against social justice; and this is wholly irrespective of whether or not they create resentment.

First, I suppose that most liberal people would now allow that every child had a natural 'right', as citizen, not merely to 'life, liberty, and the pursuit of happiness', but to that position in the social scale to which his native talents entitle him: should have, in other words, an equal opportunity for wealth, advancement, and renown. Complete achievement of this is, of course, an unattainable ideal; for the children of talented parents start with a pronounced environmental advantage. But subject only to this, all children can, if the society so decides, at least be given an equal chance of access to the best education.

This chance does not exist in Britain, since the wealthier classes can purchase for their children the overwhelming social privilege, denied to other children equally deserving but less fortunate in their parents, of a public school education. The point is argued in detail in Chapter XII. Here it need only be said that the best public schools offer not only a superior education, but the further crucial advantages of the right accent, manners, and dependability of character: that these advantages are a major determinant of occupation, and hence of income, power, and prestige: and that their distribution is correlated almost exclusively with parents' wealth and class location, and only very indirectly with innate talent or performance. This seems to me, although I have personally benefited from it, an indefensible injustice, offending blatantly against the principle of equal opportunity.

Secondly, a similar argument applies to the distribution of wealth. An equitable distribution (ignoring deliberately eleemosynary payments) requires first that wealth should be a reward for the performance of a definite service or function, and secondly that all should have an equal chance of performing the function, and so of earning the reward. The highest rewards would then

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accrue to those who, because they possess skills or services in short supply, can contribute most to national prosperity or enjoyment; provided only that the possession of these skills and services should not be artificially (that is, to a greater extent than can be explained by innate differences in talent) restricted to a privileged few.

This last condition, for the educational reason just mentioned, is not completely fulfilled even in respect of incomes from work. But it is scarcely fulfilled at all in respect of incomes from property. A later chapter discusses whether the total of property incomes can be justified as the minimum supply price for an economic service. But even if we assume that it can, so that the first requirement is fulfilled for the total *amount* of property income, its *distribution* certainly cannot be defended by the second criterion, since no one can argue that all citizens have an equal chance of acquiring property, and so of earning the due reward for the service of supplying capital.

This would be the case only if all private property were 'earned', in the sense of representing the individual's own accumulated savings, the fruits of his personal effort and abstinence. But in fact the greater part of it has been inherited; and its distribution is related not to the owner's present or past performance, but to the accident of birth. There is thus no equal opportunity for acquiring it. And it is in addition, as we shall see, most unequally distributed, so that a small upper class of rich citizens all but monopolises the stream of unearned income.

This aspect of inequality is, surely, unjust. It confers on a particular group of fortunate heirs, and denies to the rest of the population, the massive advantage not merely of an additional source of income, and the possibility of capital gains and spending out of capital, but also of security and freedom to take risks; and this they enjoy through no merit of their own, and with no corresponding obligation. And the injustice feeds on itself inasmuch as private capital also makes possible, by the better education which it permits and the subtle social advantage which it confers, a higher occupation and work-income than might have been gained on merit alone.

Thirdly, the greater the inequality, the heavier the concentration of power. Liberals as well as socialists have always disliked the possibility that one individual, or a small group, should wield

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a dominant and irresponsible power over the lives and fortunes of other individuals. No one has any obvious moral right to such untrammelled power. The temptation to abuse it is great; and it is in any case distasteful and humiliating to adult people to be completely subject to the whims and moods of a single superior. Yet such undemocratic disparities of power may easily follow from large social inequalities (though they may follow from other causes also). They may derive simply from great concentrations of wealth, as with the large private landlord, owning numerous tied cottages, or even whole villages, and perhaps the sole source of local employment and parochial patronage. But authoritarian power to-day stems less commonly from monetary wealth or private ownership than from position in a bureaucratic hierarchy.<sup>1</sup> The top executives in public and private industry wield, in particular, a degree of 'remote' power, and their managerial subordinates a degree of 'face-to-face' power, which, although diminished as compared with before the war, still appears excessive. I believe that social justice would be improved if it were to be still further diminished, and the power of the worker at the point of production correspondingly increased.<sup>2</sup>

Fourthly, rewards from work. No socialist (except for Shaw,<sup>3</sup> and he not in later life) has disputed the need for a degree of inequality here, both because superior talent deserves some rent of ability, and because otherwise certain kinds of work, or risk, or burdensome responsibility will not be shouldered.<sup>4</sup> Thus one should pay differentially high rewards to the artist, the coal-miner, the innovating entrepreneur, and the top executive. But

<sup>1</sup> v. Chapter VIII, Section V, for a fuller discussion of this question.

<sup>2</sup> Though this would still leave many other problems of power to be dealt with, which have nothing to do with social inequality in the ordinary sense of the term.

<sup>3</sup> 'Socialism is nothing but an opinion about . . . how wealth should be distributed in a respectable civilised country. . . . The only satisfactory plan is to give everybody an equal share no matter what sort of person she is, or how old she is, or what sort of work she does, or who or what her father was.' (*The Intelligent Woman's Guide to Socialism and Capitalism*, Constable, 1928, pp. 1, 19.)

<sup>4</sup> Shaw dismissed all such considerations rather cavalierly. On incentives to work: 'Nobody wants her to work harder than another at the national task. On the contrary, it is desirable that the burden of work . . . should be shared equally by the workers. If those who are never happy unless they are working insist on putting in extra work to please themselves, they must not pretend that this is a painful sacrifice for which they should be paid' (op. cit., p. 72). The problem of 'dirty work' was dismissed with analogies to titled surgeons and physicians, students dissecting dead bodies and analysing the excretions of live ones, the bearing and nursing of children, and even 'ladies and gentlemen who attend to their own motor-cars' (pp. 74-5).

## THE CASE FOR SOCIAL EQUALITY

it is not clear that these considerations justify the present pattern of work-rewards, either in principle (that is, with respect to the overall spread from top to bottom) or in practice (that is, with respect to whether the right people are receiving the higher and lower incomes).

In practice, they certainly do not. A definite proportion of people even in high *earned* income-brackets have found their way there by a rather easy route, and not solely by merit. This is not now generally true of large-scale private industry,<sup>1</sup> nor of course of the public service. But it is still to some extent true of small-scale private industry, where nepotism is by no means dead. It is still more true of City institutions, where many of the most lucrative posts even now are filled by titled semi-nonentities, or retired soldiers and sailors, wholly innocent of financial expertise; and the most coveted lower posts, after inquiries on the 'old boy net', from amongst those with a suitable college or family background. So long as this continues, the pattern of work-rewards can properly be described as unjust, in that it denies an equal opportunity of attaining certain of the top rewards.

But supposing this were not the case, and that the recipients of different incomes were selected in an orderly manner, would the present overall spread of incomes still be justified? It is clear that some differentials are actually too *narrow* for economic efficiency. But these are normally what may be called the 'horizontal' ones, that is, the differentials within a given occupation or broad income-group. Thus we probably need larger differentials for miners as against other wage-earners, skilled against unskilled workers, foremen against non-supervisory labour, graduate against non-graduate teachers, the more efficient against the less efficient businessmen, and so on.

So far as the vertical spread is concerned, I feel rather agnostic. There are two uncertainties. First, how much should be allowed as rent of ability? This is a pleasantly ambiguous concept (though Shaw characteristically defined it as 'the excess of its produce

<sup>1</sup> Though the words 'now' and 'generally' should be emphasised. A random sample of British companies in 1936 showed 172 directorships (8% of the total, and 15% if the largest companies only are taken) as held by titled persons. Almost half of these had either inherited their title, or acquired it by prowess in the fighting services or sport. One large insurance company had, out of sixteen directors, two dukes, one marquis, one earl, one baron and three knights. (P. Sargant Florence, *The Logic of British and American Industry*, Routledge, 1953, p. 206.)

over that of ordinary stupidity').<sup>1</sup> It could be taken as a non-economic, normative concept, expressing not the money rent which the community *needs* to pay in order to elicit the ability, but the individual's 'worth' (in some sense) to the community. But if this were made the sole criterion (which of course it never has been, since only those abilities for which a popular demand exists have ever in practice commanded high rents – those of motor tycoons and film stars, not poets or philosophers), it is quite certain that we should get not more equality, but a degree of inequality which would be furiously (and rightly) resented by everyone.<sup>2</sup> This is because the scatter of human ability and inventiveness is far wider than any known scatter, in modern societies, of monetary rewards; the 'worth' to society of a Stevenson, a Faraday, a Ford, a Rutherford, or a Fleming, measured in terms of their contribution to future living standards or the abolition of disease, is not merely twenty times greater than the 'worth' of the rest of us, but some hundreds or thousands of times.

But if we reject 'worth' in this vague sense as the proper criterion, on the grounds that (assuming it to be biologically transmitted) it seems unjust and unwise to reward or penalise people to quite such a prodigious extent for inherited characteristics,<sup>3</sup> we are left with rent of ability as an economic concept: that is, the additional reward which exceptional ability can in practice command from the community.

How large this should be is of course impossible to lay down in general terms. If we believe in equality, we can only say that

<sup>1</sup> *Fabian Essays* (1931 ed.), p. 9. But he adopted a rather ambivalent attitude to the question of whether these rents should actually be paid, arguing that occasional freak incomes might not matter provided that they accrued to the possessors of lucrative personal talents, such as, he explained, himself. But these talents should not be allowed to make others rich. 'To allow Cleopatra to make money out of her charm is one thing: to allow a trader to become enormously rich by engaging 500 Cleopatras at £10 a week or less, and hiring them out at £10 a day or more, is quite another.' (*The Intelligent Woman's Guide*, p. 333.)

<sup>2</sup> 'We support and encourage Ability,' wrote Shaw, 'in order that we may get as much as possible out of it, not in order that it may get as much as possible out of us. . . . This is the sole safeguard for the existence of men of Ability. Give them and their heirs the entire product of their ability, so that they shall be enormously rich whilst the rest of us remain just as poor as if they had never existed; and it will become a public duty to kill them, since nobody but themselves will be any the worse, and we shall be much the better for having no provocation to the sin of envy.' (*Socialism and Superior Brains*, Fabian Tract No. 146, 1909.)

<sup>3</sup> The question of a 'just' distribution of rewards, assuming equal opportunity and a perfect selection by merit alone, is further discussed in the next chapter, Section V.

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we shall balance the possible loss to equality against the possible gain from exploiting the ability. The balance of loss and gain will depend on the supply price of different grades of ability; this raises the whole question of incentives, about which we still know very little. Some danger point must evidently exist at which equality begins to react really seriously on the supply of ability<sup>1</sup> (and also of effort, risk-taking, and so on), and hence on economic growth. Where exactly this point lies, no one knows. I do not myself believe that we have yet reached it. The matter is discussed in detail later; but I am not convinced that the present 20 : 1 spread in post-tax incomes is really essential to incentive.<sup>2</sup> I therefore think that we should move slowly forward, concentrating on gross rather than net incomes, eschewing increased taxation on marginal earnings, and always preferring an increase in the lowest incomes to an attack on the highest: and after the next step forward pause, and scrutinise the repercussions, if any, on economic behaviour.

But I do not regard the re-alignment of work-incomes as being a particularly urgent task for a Labour Government, partly because they constitute a distinctly lesser 'injustice' than the three others discussed above, and partly because a decision here is not a decision about incomes or wealth as a whole. Some 40% of surtax income accrues not from work, but from property; and the higher the total income, the higher the proportion which comes from property. Measures to redistribute property will therefore greatly diminish the inequality of wealth, and will also indirectly alter the pattern of work-incomes by reducing the differential social and educational advantages which now follow from the possession of large inherited fortunes.

In any case inequity in respect of work-rewards often resides less in the distribution of direct money emoluments, than of certain privileges and advantages which conventionally go with them. Thus industry is riddled with non-pecuniary differentials far larger than can be justified on grounds of incentive: for

<sup>1</sup> At which, in practice, the ability begins to emigrate on a large scale to Canada and Kenya.

<sup>2</sup> Of course any nominal spread of this sort, such as emerges from the tax tables, underestimates the true spread owing to the wide possibilities of tax avoidance. If one were to allow for perquisites and business expenses which in fact go to raise the recipient's personal standard of life, and for tax-free capital gains made possible by his business situation, the real spread of 'rewards' from work would be much greater than 20 : 1.



example, in respect of holidays, sick-leave, working hours, and often superannuation.

This is only one aspect of a wider inequality, noted already in Chapter VII, namely, that wealthier people, either through the terms of their employment or through tax allowances, are relatively better able to cope with the financial problems of rearing large families, of sickness, and of old age, than poorer people who depend mainly on the social services. Thus even if one could defend the present vertical distribution of direct money emoluments on the hypothesis that the entire population consisted of healthy young bachelors and spinsters, it is much harder to defend the distribution of total resources in periods of need in the light of the great variations in need between families. I believe that the vertical inequality in the distribution of these resources amongst the elderly, the sick, and those with large families constitutes a definite social injustice.

### VIII *Equality and Social Waste*

The third objection to extreme social inequality is that it is wasteful and inefficient. If the determinants of class make deep incisions, and the space of free social movement is restricted, as is the case in Britain (mainly on account of the distinct layers traced by a segregated educational system), two undesirable consequences follow.

First, social intercourse between the classes is markedly inhibited, both by external differences in 'manners' and behaviour, and by subjective consciousness of class. One of the strong attractions of Swedish or American society is the extraordinary social freedom, the relaxed, informal atmosphere, the easier contacts, the natural assumption of equality, the total absence of deference, and the relative absence of snobbery and of that faint, intangible but none the less insistent sense of class that permeates social attitudes in Britain. One does not ask that all Englishmen should suddenly take to calling each other 'Bud', or altogether abandon their well-known national posture of reserved hauteur; but it would be agreeable if they should intermingle rather more freely and with rather less restraint than they do to-day, and if our social system generally were less fragmented and sub-divided. But

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this is naturally a matter of personal taste and temperament; and possibly more reserved or inhibited Englishmen may not like the idea of a more mixed-up, egalitarian, informal pattern of social life.

However, the British class system also involves a definite social waste, since it selects its leaders badly. If social mobility is low, as it must be in a stratified society, and people cannot easily move up from the lower or middle reaches to the top, then the ruling élite becomes hereditary and self-perpetuating; and whatever one may concede to inherited or family advantages, this must involve a waste of talent.

Opportunities for rising are, it is true, more ample than they used to be; and any really outstanding working-class child now can, with an effort, reach the top. But even on the simplest grounds of efficiency this is not enough. In our highly complex and professional industrial society, the problem of leadership is not one merely of finding the tiny minority of brilliant geniuses; for there are far more responsible top positions than geniuses to fill them. We cannot be content with correctly distributing all the (as it were) alpha material, but must make the best use of our beta resources also. And here matters are far from satisfactory. Clever working-class children are still denied access to the public schools, while the less clever but still potentially useful have only a rather uncertain access to the grammar schools;<sup>1</sup> and there is certainly no perfect correspondence between natural talent and type of education. Moreover, as was observed above, inherited property, nepotism, and class favouritism all prevent a fair and effective competition, on merit alone, for the highest posts.

It follows that we are still not extracting the best from our population, or making the most exhaustive use of scarce resources of human ability. This is a definite social waste, and one directly related to a stratified social system which, by placing a premium on lineage, and barriers in the way of vertical mobility, prevents a genuine equality of opportunity.

### IX *How Much Equality?*

How far towards equality do we wish to go? I do not regard this as either a sensible or a pertinent question, to which one

<sup>1</sup> c. Chapter XII.

could possibly give, or should attempt to give, a precise reply. We need, I believe, more equality than we now have, for the reasons set out in this chapter. We can therefore describe the direction of advance, and even discern the immediate landscape ahead; but the ultimate objective lies wrapped in complete uncertainty.

This must be the case unless one subscribes to the vulgar fallacy that some ideal society can be said to exist, of which blueprints can be drawn, and which will be ushered in as soon as certain specific reforms have been achieved. The apocalyptic view that we might one day wake up to find that something called 'socialism' had arrived was born of revolutionary theories of capitalist collapse. But in Western societies change is gradual and evolutionary, and not always either foreseeable or even under political control. It is therefore futile and dangerous to think in terms of an ideal society, the shape of which can already be described, and which will be reached at some definite date in the future. Countries like Britain do not leap from one fully-fledged social system to another, but are, on the contrary, in a state of permanent transition.

Moreover, as was pointed out in Chapter V, socialism is not an exact descriptive term, connoting a particular social structure, past, present, or even immanent in some sage's mind, which can be empirically observed or analysed. It simply describes a set of values, or aspirations, which socialists wish to see embodied in the organisation of society. One must confine oneself to saying, therefore, that society at any given moment either does or does not sufficiently embody these values; and if it does not, then further changes are required. But exactly what degree of equality will create a society which does sufficiently embody them, no one can possibly say. We must re-assess the matter in the light of each new situation.

We can thus only venture very general statements of the objective. I feel clear that we need large egalitarian changes in our educational system, the distribution of property, the distribution of resources in periods of need, social manners and style of life, and the location of power within industry; and perhaps some, but certainly a smaller, change in respect of incomes from work. I think that these changes, taken together, will amount to a considerable social revolution.

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On the other hand, I am sure that a definite limit exists to the degree of equality which is desirable. We do not want complete equality of incomes, since extra responsibility and exceptional talent require and deserve a differential reward. We are not hostile, as our opponents sometimes foolishly suggest, to 'detached residences in Bournemouth where some elderly woman has obviously more than a thousand a year'.<sup>1</sup> I do not myself want to see *all* private education disappear: nor the Prime Minister denied an official car, as in one Scandinavian country: nor the Queen riding a bicycle: nor the House of Lords instantly abolished: nor the manufacture of Rolls-Royces banned: nor the Brigade of Guards, nor Oxford and Cambridge, nor Boodle's, nor (more doubtfully) the Royal Yacht Squadron, nor even, on a rather lower level, the Milroy Room, lose their present distinctive character:<sup>2</sup> nor anything so dull and colourless as this.

But where en route, before we reach some drab extreme, we shall wish to stop, I have no idea. Our society will look quite different when we have carried through the changes mentioned earlier; and the whole argument will then need to be re-stated, and thought out afresh, by a younger generation than mine.

<sup>1</sup> *The Tablet*, reviewing *New Fabian Essays*, 31 May 1952.

<sup>2</sup> On the condition, of course, already fulfilled in the case of Oxford and Cambridge, that entry into these eminent institutions is not a matter simply of lineage.

## X

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### IS EQUAL OPPORTUNITY ENOUGH?

#### 1 *The Conventional Objection to the Equal Opportunity Society*

SOME radicals, however, would be content with the strictly limited objective of equal opportunity. If everyone, they argue, has an equal chance of scaling the heights, if every worker carries a managing director's brief-case in his knapsack, why worry about the length of the climb, or the unequal distribution of rewards? The essential thing is that every citizen should have an equal chance – that is his basic democratic right; but provided the start is fair, let there be the maximum scope for individual self-advancement. There would then be nothing improper in either a high continuous status ladder (e.g. of income or consumption patterns) or even a distinct class stratification (e.g. a segregated educational system), since opportunities for attaining the highest status or the topmost stratum would be genuinely equal. Indeed the continuous traffic up and down the ladder would inevitably make society more mobile and dynamic, and so less class-bound.

Conservatives like to claim that this is the doctrine of modern Tory radicalism (although it also commands support on the Left amongst those to whom the lack of opportunity was the most inexcusable injustice of pre-war capitalism); and the 'ladder' concept has now become the ideological myth of the 'progressive' British Tory, who allegedly finds his ideal in those societies, such as Australasia, Canada, and above all the

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United States, which appear to embody it most completely.<sup>1</sup>

But I deliberately stress the words 'myth' and 'allegedly', for I do not believe that such a society in any way resembles the true ideal of most Conservatives. Consider its most obvious implications – completely free, competitive entry into industry: an end to all nepotism and favouritism: a diminution, if not the virtual elimination, of inheritance: the abolition of fees in public schools: and generally the extrusion of all hereditary influences in our society – and contrast these with actual Conservative policies in these various spheres, and with their emotional attachment to precisely the most traditional and hereditary features of British life.

It is in fact a complete illusion that British Conservatives really want a mobile equal-opportunity society on the American pattern. They may say they do, in order to wear the mantle of reformers, and to lend some plausibility to their reiterated claims to be the party of adventure and initiative; and because in praising America they appear to be praising free enterprise and capitalism. But a moment's thought will show that the sweeping reforms required to create such a society would be anathema to them, and that their true ideology is poles apart from the restless, egalitarian ideology of contemporary America. This indeed comes much closer, though this is not always understood in England, to the egalitarian ideas of the Left than to the more static, conservative instincts of the Right.

From the point of view of the reformer, the equal-opportunity society has much to commend it. It avoids the deeply-felt injustice of hereditary status – the resentful feeling that the top rewards are reserved for the pre-selected few, that the well-born fool has a better chance than the poor-born genius, and that the son can hope to rise no higher than his father, but is condemned to fill that station to which it shall please God to call him. It allows more intercourse between the classes; and by lowering the barriers and stimulating movement in both directions it at least diminishes *collective* feelings of superiority and inferiority. And, lastly, it provides an admirably efficient method of selection for

<sup>1</sup> Perhaps one should add, to give a patriotic flavour, and because the more romantic Tories so continually perorate about it, Elizabethan England, of which Professor Trevelyan writes that 'class divisions, recognised without fuss on either side, were not rigid and were not even strictly hereditary. Individuals and families moved out of one class into another. . . . English society was based not on equality but on freedom – freedom of opportunity and freedom of personal intercourse.' (*English Social History*, Longmans, 1942, p. 162.)

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the highest posts; the fools are weeded out, only the fittest can survive, and the consequent high calibre of the men at the top must be beneficial to economic progress.

But it is fashionable in some quarters to inveigh against a 'competitive ladder' society on socio-psychological grounds. A number of psychologists, sociologists, and social anthropologists assert that it must lead to new and alarming evils.<sup>1</sup> Its basic features will be a marked degree of social fluidity, such that the individual knows he could attain a higher status (as he cannot in a feudal society); an exceptional ease of invidious comparison, since there are no rigid barriers between the different levels; and a general determination to rise, since rewards at the top far exceed anything available lower down, and since both social prestige and psychological self-validation depend upon success in the competitive struggle. Thus every individual, spurred on by his invidious comparisons and the glittering prizes ahead, will both aim at a higher status and, because the door to self-advancement seems wide open, think he can attain it. Hence will be bred a universal, restless itch to rise in the social scale.

But the resulting accent on emulation and ambition, it is said, so far from increasing contentment, must certainly diminish it, and lead to general insecurity. Whereas in a hereditary system competition is severely limited, now it becomes quite general. And as the area of competition and the scope for self-advancement are increased, so the ratio of failure to opportunity must increase. A hereditary society, denying the opportunity to rise, avoids also the sense of failure at not having risen; but if all have the opportunity, and only 10% succeed, 90% are conscious of having failed, and suffer a loss of self-esteem. And the more unequal the rewards, the greater will be the frustration from failure, the more ruthless the competition, the more bitter the intolerance shown to rivals. Moreover acquisitiveness is intensified inasmuch as higher status depends, in Veblenesque fashion, on high consumption standards, and so on making money.

<sup>1</sup> This view is expressed or implied, with varying degrees of emphasis or moderation, by Karen Horney, *The Neurotic Personality of Our Times* (New York, W. W. Norton, 1937); Abram Kardiner, op. cit., Chs. XI, XII, and XIV; Robert S. Lynd, *Knowledge for What?* (Princeton University, 1945), Ch. III; Ruth Benedict, op. cit., Chs. VII and VIII; Margaret Mead, *Keep Your Powder Dry* (William Morrow, 1942), Ch. IX; Robert K. Merton, op. cit., Ch. IV; and amongst English writers, T. H. Marshall, op. cit., Ch. III. It has now found its way into some Left-wing political writing; cf. *Socialism* (Socialist Union, 1953).

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Such is the society – restless, insecure, aggressive, and acquisitive – that results from the pursuit of equal opportunity, if these writers are to be believed.<sup>1</sup> The inevitable consequences are increased discontent in the lower ranks of society,<sup>2</sup> psycho-somatic diseases on a wide scale, and a maladjusted neurosis-prone community.<sup>3</sup> The United States is already in the grip of these ailments, and Britain is showing distinct symptoms of infection.

### II *The Myth of Aggressive Competition*

Surely we are faced here with a positive mountain of irrelevance and exaggeration, even though an element of truth lies buried under it.

First, there is no evidence to justify definite statements to the effect that psychoses, neuroses, and psycho-somatic diseases are more common to-day than in previous epochs. Alarming figures are quoted of the amount of absenteeism due to mental illness, the incidence of stomach-ulcers, the number of mental patients, and so on; but of course comparable figures can rarely be quoted for earlier periods. In fact such little comparative evidence as exists does not support these conclusions; according to a recent American study, there has been no increase in the incidence of

<sup>1</sup> The most extreme (and jargonish) version of this case is to be found in Kardiner. 'The whole community is permeated with the struggle to achieve prestige-status. . . . The presence of social mobility, or the absence of fixed statuses, increases the vigour with which these tangible forms of self-validation must be pursued. . . . This common goal makes for social instability because there is a constant turnover from underdog to overdog and vice versa. Anxiety is mobilised on the part both of those who have status-prestige and those who have not. . . . Those who fail feel self-condemnation and self-depreciation which is translated into hatred and envy of those who succeed. . . . This explains the abandoned destructiveness of contemporary society.' (op. cit., pp. 341-2, 364-5, 410, 453.)

<sup>2</sup> 'When the race is to the swift, the slow, who are always in a majority, grow tired of their perpetual defeat and become more disgruntled than if there were no race at all. They begin to regard the prizes as something to which they are entitled and of which they are unjustly deprived. They declare that no man ought to be made to race for his bread and butter, and the argument is not without force.' (T. H. Marshall, op. cit., p. 127.)

<sup>3</sup> 'The strains involved may be seen in suicides and in the mounting tide of entrants into our mental hospitals.' (Lynd, op. cit., p. 231.) 'A neurotic development in the individual arises ultimately from feelings of alienation and hostility. . . . Among the factors in Western civilisation which engender potential hostility, the fact that the culture is built on individual competitiveness probably ranks first.' (Horney, *New Ways in Psycho-Analysis*, pp. 172-4.)



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the psychoses over the last 100 years despite the alleged increase in competitiveness, status struggle, and insecurity.<sup>1</sup>

Even if one could demonstrate an increase in mental disorders, it still need not be due to external social or economic factors. A strict Freudian, for example, would presumably argue that the proneness of society to nervous disorders varied only with the degree of restraint imposed by the prevailing cultural *mores* on the individual's basic biological drives.<sup>2</sup> But of course the fact is that the psychological sciences are not yet sufficiently mature to warrant any dogmatic statements about the social causes of neuroses.

But suppose we forget the flamboyant talk of mental ailments, and confine ourselves to the more modest proposition that personal insecurity and discontent may well be due to social causes, it would still not follow, even if they could be shown to be more widespread than 100 years ago, that this was *necessarily* due to social causes, still less to the particular social factor of mobility and competitiveness. It might be due to climatic, or dietetic, or racial, or religious, or a host of other possible influences.<sup>3</sup> Switzerland, for example, which enjoys only a placid degree of competition, is said to have the highest divorce and suicide rate in the world.

<sup>1</sup> Herbert Goldhammer and Andrew Marshall, *Psychosis and Civilisation: Studies in the Frequency of Mental Disease* (Glencoe: The Free Press, 1953). This finding does not prove anything definite about the incidence of the neuroses, for which scarcely any reliable past data exist. Whether one deduces anything from it about neuroses depends on which of two conflicting views is held – that these two classes of mental disorder are the product of largely the same set of causes (e.g. some total 'stress' factor to which social life subjects people), or that they have a quite independent aetiology.

<sup>2</sup> Freud allowed no great importance to social or cultural factors; even so standard a work as *New Introductory Lectures in Psycho-Analysis* contains virtually no reference to them. Neuroses are explained in terms of instinctual biological trends, which are at the most modified by culture and environment. Indeed, so far from accepting that the culture determined the neurosis, Freud tended to believe the opposite. 'Since he is convinced of the universality of the role played by allegedly instinctual drives, Freud feels entitled to explain cultural phenomena too on that basis. Capitalism is seen as an anal-erotic culture. . . . Qualitative differences in different cultures are accounted for by the nature of the instinctual drives which are characteristically expressed or repressed.' (Horney, op. cit., p. 169.)

<sup>3</sup> Norman Douglas's Mr. Keith was an enthusiastic exponent of a dietetic theory of human psychology. 'The best way to begin improving oneself was to keep one's bowels open, and not trouble about those of anybody else. The serenity of outlook thereby attained would enable a man to perceive the futility of interfering with the operation of natural selection. . . . Had the tribe of Israel been careful in the matter of dietary their sacred writings, a monument of malnutrition and faulty digestive processes, would never have seen the light of day. . . . We owe not only Magna Carta, but our whole Empire, to our costive habits of body.' (*South Wind*, pp. 281-4.)

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At any rate, to prove the full anti-competitive thesis, it would at least need to be shown that contemporary Anglo-Saxon society, by virtue of its increased fluidity, did now lay an exaggerated stress on ruthless competition and egocentric aggression. Then, if certain specific assumptions are made about the greater frequency and social causes of personal frustration, a *prima facie* case might be said to exist.

This evidently cannot be shown of Britain. Earlier chapters have already suggested that whatever may have been the case in the heyday of Victorian capitalism, or even in the 1920s, British society and industry to-day, so far from being a breeding-ground for aggressive self-assertion, are psychologically oriented towards security, group solidarity, safe markets, and a quiet life with long week-ends, regular golf, and a place in the country.

However, Britain is not really a suitable test-case, for we still retain a rather static, rigid pattern of social relations. It is to the U.S.A. that we must turn for evidence: to a society undeniably fluid and dynamic, ostensibly parading to the world an ideology of competitive free enterprise, and allegedly the archetype of the aggressive, acquisitive society with all its attendant discontents. If this picture of the U.S.A. is accurate, it might indeed suggest that social mobility was inseparable from ruthless competition and so, in turn, from aggression and insecurity.

But I believe this picture to be largely mythical, even though some credulous Americans themselves accept it. It is not that insecurity is absent, but that it is mainly due to causes other than aggressive competition and an ethos of individualistic struggle for pre-eminence. These now represent neither the true prevailing ideology, nor the actual pattern of behaviour.

First, whatever business spokesman may assert at annual conventions, unrestricted free enterprise is no longer the effective ruling ideology. Political attitudes are a good guide to ideological trends; and it is now a quarter of a century since a party genuinely wedded to unrestricted free enterprise gained a popular majority. Twenty years of New Deal and Fair Deal, of anti-business bias and 'creeping socialism', have been followed by a Republican Administration still committed to social security, which has maintained the New Deal virtually intact, and even so cannot command a majority of the popular vote without the help of President Eisenhower. The disciples of extreme *laissez-faire* are

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confined to the Right-wing of the Republican Party; and the natural bias of the electorate is, as in Britain, towards a position a little left of centre. Perhaps the most symbolic event in recent American history was the successful opposition, even under a Republican régime, to the private-enterprise Dixon-Yates contract, lest it impinge too heavily on the publicly-owned T.V.A.

I do not mean that the current ideology is positively *anti*, only that it is no longer ardently *pro*, unrestricted free enterprise. Many American business leaders, more sensitive to shifting opinion than some sociologists, have observed the change, and become so alarmed at the decline of faith that they have launched a massive advertising campaign to rally their support. This is surely significant. If the free enterprise creed were still in the ascendant, there would be no need to set up Americans for the Competitive Enterprise System Inc.: no need for 8,000 outdoor posters, 136,000 car cards, and 3 million radio 'listener impressions' on the Free Enterprise theme: no need for General Motors to produce a full-length Hollywood film on the merits of the profit system: or for General Electric, Procter and Gamble, Republic Steel and many other firms to make free distributions of Free Enterprise comics.<sup>1</sup>

'All in all, the Free Enterprise campaign is shaping up as one of the most intensive sales campaigns in the history of industry – in fact, it is fast becoming very much of an industry itself. At the current rate, it is accounting for at least \$100,000,000 of industry's annual advertising, public relations, and employee-relations expenditures. And it is not worth a damn. Even those who batten on it concede the failure. "Chief, what this needs is the hard sell. The message hasn't got across. We haven't hit 'em where they live. Joe Doakes has been tone deaf." '2 Joe Doakes has been tone deaf because the Great Depression killed his faith in *laissez-faire*, and instilled in him an ineradicable attachment to a New Deal, social-security political philosophy.

This change in the climate of opinion is reflected in a change in the psychology of the business leaders themselves. Andrew Mellon or Andrew Carnegie, violent, splenetic, reactionary,

<sup>1</sup> v. William H. Whyte, *Is Anybody Listening?* This whole book, by one of the shrewdest commentators on the changing social climate of U.S. industry, should be read by anyone who still believes in the myth of American individualism.

<sup>2</sup> op. cit., p. 7.

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merciless to competitors, ruthless towards trade unions, glorying in their boundless power, and arrogantly contemptuous of public or governmental opinion, belong to a dead past; and the few survivors, such as Mr. Sewell Avery of Montgomery Ward, only emphasise by their isolation, and their reputation as eccentric oddities, the completeness of the change. The typical business leader to-day is of an altogether different mould: quieter, more civilised and unassuming, less confident about free enterprise and faintly anxious to justify himself, a frequent visitor to Washington, an Eisenhower supporter, versed in economics, an adroit negotiator on excellent terms both with competitors and Union leaders, and quite content to accept state action, if need be, in the interests of full employment.

The contrast is most evident in the field of labour relations. I refer not merely to the obvious fact that Trade Unions have now won almost universal recognition, but to the obsession of business executives with personnel and labour problems. Top management spends half its energies worrying about these problems, and searching for more and more 'progressive' personnel ideas; and the talk is all of participation, co-operation, human relations, the morale of the labour force, good communications, group activity, and social engineering. Autocratic management is taboo; teamwork is the universal maxim; and Elton Mayo replaces Henry Ford as the symbol of management's attitude to labour. But the contrast is also evident in respect of business competition, which, although still significantly sharper than in Europe, is now held within bounds which would not be recognised or tolerated for a moment in a really aggressive, individualistic, free-enterprise culture.

We find an analogous change in the psychology of consumption. Fifty years ago the U.S. was a genuinely acquisitive, Veblenesque society; and it is still assumed to be by the writers whom I have quoted. A previous chapter has already cast doubts on the accuracy of this assumption.<sup>1</sup> In a Veblenesque society, expenditure must be as conspicuous and ostentatious as possible in order to provide irrefutable evidence of superior wealth; and right down the scale, keeping up with the Joneses in fact means pushing as far ahead of them as possible. To-day, it means literally what it says – simply keeping up.<sup>2</sup> To push conspicuously ahead is no

<sup>1</sup> *v.* Chapter VIII, Section IV.

<sup>2</sup> Sometimes, indeed, keeping down.

longer meritorious. To own a Cadillac when the rest of the group have Buicks, to be the first to buy an air-conditioning plant, to be too blatantly chic, generally to be extravagant and ostentatious and to parade superior wealth – these are to court unpopularity, to offend the canons of the group, and to be condemned as showing off. The wheel has turned full circle; William Randolph Hearst would now attract, not envy and acclaim, but pity or censure as a deviant, non-adjusted personality; cultural conformism has replaced the self-conscious desire for ostentatious eccentricity; and where once the whole object of expenditure was to attract ‘invidious comparisons’, to-day it is to avoid them.<sup>1</sup>

One final example may be quoted: the educational system, always an accurate mirror of underlying cultural attitudes. There are no schools in the world where less emphasis is laid on rivalry and competition, and more on co-operation and adaptability. This may be observed both in the curricula, with their classes in ‘life-adjustment’, ‘group living’ and ‘social integration’, and the studied effort to teach the pupils how to ‘get along’ with their fellows: and in the system of promotion. Promotion by talent or competitive examination has almost everywhere given way to ‘social promotion’ by age-groups, lest the brilliant child be encouraged to be too ambitious, and the stupid child depressed by open proof of his inferiority.

Generally, present-day American society is characterised by close behavioural conformity, an anxious desire for approval, an acute sensitivity to personal relations, a ‘socialisation’ of tastes and preferences, and a marked tendency to suppress idiosyncrasies.<sup>2</sup> This is in striking contrast to the picture of a society dominated by ruthless, masterful ambition, a lust for power, a desperate urge to compete, and a reckless, self-regarding individualism. The change appears to have begun in the early 1930s;<sup>3</sup>

<sup>1</sup> If we are to believe Miss Mitford, a parallel change has occurred amongst the British aristocracy. ‘It has become a matter of policy to appear very poor. The lords are retrenching visibly, and are especially careful to avoid any form of ostentation: for instance, only 5 of them saw fit to attend the last coronation in their family coaches. Coronets on luggage, motor cars, and so on are much less used than formerly.’ (*Encounter*, September 1955.) But this may be more ‘a matter of policy’ than a change in psychology!

<sup>2</sup> v. David Riesman, *The Lonely Crowd* (Yale University, 1950), *passim*, for examples of this tendency.

<sup>3</sup> Though the trend towards cultural conformism was of course evident long before then amongst immigrant groups. But there it was to be explained by the problem of assimilating ethnically heterogeneous groups into a stable and homogeneous society.

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and it has developed so rapidly since that the America of the roaring 1920s now belongs to a wholly departed epoch.<sup>1</sup>

Not that American society, or any 'conformist' culture, is immune from social tensions. The emphasis on orthodoxy and communal activity<sup>2</sup> may well breed deep tensions and anxiety, and cause acute misery to the eccentric through the social obloquy which he incurs. Indeed it could be argued that such a society<sup>3</sup> causes greater emotional strain, insecurity, and worry than a more self-confident, individualistic, non-conformist culture.

Be that as it may, the relevant point is that these conformist, communal tendencies must, when judging American society, be set against the opposite competitive ones (such as those which operate so strongly within the junior executive class). Taking the two together, it does not appear that a fluid, equal-opportunity society, such as the U.S. is assumed to be, need necessarily engender the atmosphere and cultural pattern described in the previous section. Certainly such a pattern may exist in a society, and has done in past societies; and no doubt when it does it might – though we can scarcely know – give rise to all the atrocious evils alleged against it. But it cannot be said to follow inescapably from, and to be a sweeping indictment of, the objective of social mobility and equal opportunity.

### III *Advantages of the Equal Opportunity Society*

Moreover even if one did concede that greater mobility necessarily led to greater insecurity, and hence to some increase in (as it were) the *gross* amount of social discontent, it would still not follow that it brought an increase in the *net* amount of

<sup>1</sup> One reason for the inaccuracy of the picture presented by some of the writers mentioned above is their extreme ignorance of developments in the other social sciences. Thus Kardiner quotes profusely, as though it were incontestable evidence, from some of Laski's most obsolete political writings; while Lynd, writing in 1939, quotes a long list of economic facts and statistics none of which refers to a later year than 1929, and all of which were out of date by the time he wrote (*op. cit.*, pp. 74-6).

<sup>2</sup> cf. the intensive, round-the-clock group activity in any American suburb – both recreational (*kaffeeklatsching* and parties) and organisational (civic clubs, church groups, and every kind of society). Indeed, it is the absence, not the excess, of individual effort which alarms the English visitor.

<sup>3</sup> Which is essentially characterised by a 'Someone Isn't Using Amplex' psychology.

discontent. People sometimes forget that social immobility has serious drawbacks, and that a greater fluidity brings in its train significant advantages, some of which were briefly mentioned at the beginning of the chapter.

Thus one could only wholly eliminate the alleged ill effects of greater mobility by wholly eliminating their cause, which lies fundamentally in the existence of differential rewards, which act as incentives, combined with an equal opportunity for attaining them. Only if one or other or both of these were eliminated would the discontents completely disappear.<sup>1</sup> 'The neurotic development of boundless ambition, for instance . . . is unthinkable in a culture which does not know individual competitiveness, and which offers no rewards for outstanding individual achievement. This holds true also with regard to neurotic strivings for prestige and possessions.'<sup>2</sup> No doubt. But the price to be paid for this condition of well-adjusted bliss is rather a heavy one – 'no rewards for outstanding individual achievement'.

More moderate critics would not, of course, go quite so far as this. But even their arguments tend in the same direction – the suppression of competition, and the denigration of incentives to self-advancement. The shop-steward who refuses a managerial post is praised; measures to restore price-competition are frowned on; piece-rates and monetary incentives are played down – all to an extent which comes perilously close to advocating an ossified and feather-bedded society, enjoying every conceivable protection against any nerve-racking competition whatsoever.

Now this might, in another age, be the right way to attain the ideal society. But it most emphatically is not to-day. It would entail a catastrophic sacrifice of economic progress and efficiency, which do demand, however hopeful one may be about the development of new incentives, *some* differential rewards and *some* competition for them. Certainly, as I argued in the previous chapter,

<sup>1</sup> In fact they would not disappear even then, on the argument of the most anti-competitive psychologists. 'Competitiveness not only dominates our relations in occupational groups, but also pervades our social relations, our friendships, our sexual relations, and the relations within the family group.' (Horney, *op. cit.*, p. 73.) This extends the difficulty far beyond the sphere of business or professional competition, into a sphere where it would be innocent to believe that competition did not ante-date 'free enterprise', and optimistic to believe that it will follow the state and wither away under socialism. It is not obvious that the sex war derives from a fight for markets, or will disappear however 'socially-integrated' and 'participant' our society becomes.

<sup>2</sup> *ibid.*, p. 176.

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existing inequalities are greater than can be justified on these grounds; equally, as I argue in a later chapter, there is no call to become obsessed by the question of economic growth. But if any connection between differentials and efficiency is granted, and if we admit that whatever may be the position 20 years from now, we shall face many extremely urgent claims on resources for several years ahead, then we cannot dispense entirely with the spur of competition. Sociological Utopias, like earlier philosophical ones, tend to be wholly static in character, and to assume that the problem of production has been solved, so that all can laze in the sun without rivalry. But for the moment at least we might have to pay a heavy price, in terms of urgent wants foregone, for the elimination of all competitive endeavour.

Secondly, the absence of equal opportunity and social mobility is both a denial of democratic rights, and a positive cause of discontent. From the moment when the Industrial Revolution broke up the stable pattern of eighteenth-century society, and spatial mobility and social awareness suddenly increased, and still more from the moment when a working-class political movement came into being, and education became general – from that time on, unequal opportunity became resented, and itself a cause of social frustration. The masses were no longer willing to accept that there was some divine ordination about the existing social hierarchy. Convinced that they too had a right to rise, they challenged the social order which denied them the opportunity; and the persistence of that order became a positive source of mass resentment.

The gradual (though in Britain still very partial) evanescence of this resentment, as the upward routes were smoothed and broadened, should be set against the alleged increase in insecurity. But often it is not, the reason being, I think, that anti-competitive writers frequently make the wrong time-comparison. If one compares an equal-opportunity society with a stable hereditary one – the U.S. to-day, say, with Britain in the eighteenth century – it may be, for all I know, that the change is all for the worse, and hostile tensions greater. But this is hardly a relevant or interesting comparison, since no one proposes a reversion to a hereditary stratification. If, however, we compare an equal-opportunity society with one which aspires to equal opportunity, but is denied it by existing social relationships – with Britain, say, in 1906 –



then surely we would judge that the former showed fewer resentments and frustrations than the latter.

This is partly due, thirdly, to the fact that other social benefits inevitably follow in the wake of greater social (and therefore political) mobility. This latter was not, in Britain, a sudden isolated arrival on the scene, but was part (and to some extent the agent) of a broad movement of social reform which brought such simultaneous gains as greater equality, better social security, the spread of education – in fact, a general improvement in the condition of the masses.

It is not clear that this whole process can be said, on balance, to have increased insecurity. The same movement of reform brought both the Welfare State and more equal opportunities. Possibly the latter have intensified insecurity. But the whole practice and ideology of the former pull hard in the opposite direction – towards security, social responsibility, co-operation. Taking the two together, can one really assert that they have led to a net increase in insecurity, ambition, and acquisitiveness? Most people would surely judge that these characteristics were more evident in mid-Victorian England, when opportunities were much less equal, than they are to-day.

Fourthly, wider opportunities must tend to diminish class feeling and stratification. This is the mobility factor referred to in Chapter VIII. If people from the bottom can rise to the top, the relative status of those at the top is inevitably affected. A hereditary upper class maintains its towering and unchallenged status by virtue of being impenetrable from below. But as soon as the heights are invaded by social climbers, and those still at the bottom can claim relatives or acquaintances amongst those at the top, the prestige of the latter must obviously decline. Increased mobility, especially when, as in Britain, it comes as part of a broad movement of radical reform, will tend to diminish inequality in respect of all the determinants of social class. Admittedly it will not do so, as I argue later, to the extent that socialists desire – at least not in Britain, where, as opposed to newer societies, class stratification goes too deep to be uprooted merely by equalising opportunities. Nevertheless it must have some effect in the right direction.

IV *Inequality of Opportunity in Britain*

I conclude that the case often made against the mobile equal-opportunity society both exaggerates the evils, and underestimates the compensating gains. Certainly too strong an emphasis on equal opportunity may, under certain conditions to be discussed below,<sup>1</sup> lead to an excessive degree of competition, and hence of resentment and insecurity. But it will do so only if these conditions are present; and they need to be accurately defined. There seem no sufficient grounds for a sweeping condemnation on principle of any such society, regardless of whether these conditions are fulfilled or not.

In Britain, moreover, whatever may be the case elsewhere, a more equal spread of opportunity would bring some exceptionally notable gains at unusually little risk. This is because our national temperament and social habits constitute a reasonably adequate safeguard against too malignant a growth of neurotic, aggressive competition: because our economic situation imparts a particular importance to efficient selection for the highest posts: and because, having developed slowly from a traditional and hereditary society, we are still so far from granting an equal chance to every child.

The previous chapter quoted a number of examples of how unequal opportunities still are. A recent pioneer study now enables us to support this criticism by detailed figures.<sup>2</sup>

The authors of this study measure the degree of social mobility, as opposed to social inertia and class self-recruitment, by means of an 'Index of Association'. A situation of 'random' or 'perfect' mobility, in which there was no link between parental and filial status, and every son had an equal chance of arriving in any status category, would give an Index of Association of 1. This would mean that the actual number of sons of fathers in a particular category, who themselves arrived in that category, was exactly what would be expected on a purely random basis of selection. But if, say, the actual number of sons of fathers in a category who themselves arrived in that category was 20, whereas the expected number on a random basis was 15, the ratio of actual to expected recruits would be 20 : 15, and the Index of

<sup>1</sup> *ib.* next section.

<sup>2</sup> *Social Mobility in Britain*, ed. D. V. Glass (Routledge and Kegan Paul, 1954).

Association 1.3. Thus the higher the Index, the higher the degree of self-recruitment and maintenance of parental status.<sup>1</sup>

An Index of Association of unity, implying a situation of perfect mobility, is naturally very unlikely, since parental background will always exert a strong influence. What would be significant would be not that the Index was higher than unity for the population as a whole, but if it had strikingly different values for different social groups.

This is precisely what it does have in Britain. For the whole group of males covered by the sample, the Index was 1.44. But when the group was divided into seven status categories according to occupation, it was found to be 1.3 for the top category (professional and high administrative) – that is, the number of sons of parents in this category who entered it themselves was 1.3 times as large as it would have been on the basis of random mobility: 5.8 for the second category (managerial and executive): it then fell below 2 for categories 3 to 6, and only rose again to 2.2 for category 7 (unskilled manual).<sup>2</sup>

This suggests a very restricted opportunity for children in the lower to rise into the upper categories, and especially into the top one. The extent of self-recruitment and maintenance of parental status is extremely high in those occupations with the greatest prestige, even though a considerable amount of mobility is apparent lower down. Moreover no significant changes have occurred in the seven Indices for many years; perhaps the 1944 Education Act will eventually make a difference, but the lack of a sustained improvement is disturbing. Sons in the top two categories still enjoy a marked advantage, while sons of 'lower' lineage still find it hard to rise into the 'middle-' and 'upper-class' professions. These figures show that Britain is, even now, far removed from offering equal opportunity; and this remains an essential socialist objective.

## v *Why Equal Opportunity is Not Enough*

Yet there is a reason why it is not a sufficient objective in Britain, or one which absolves us from responsibility for a direct

<sup>1</sup> op. cit., Ch. VIII.

<sup>2</sup> *ibid.*, Tables 11A and 11B, pp. 199-200.

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attack on other inequalities. It is a reason which is only partly concerned with insecurity or ferocious competition, and is mainly related to other considerations. It stems from the danger that under certain circumstances the creation of equal opportunities may merely serve to replace one remote élite (based on lineage) by a new one (based on ability and intelligence).

Now some degree of 'éliteness' is inevitable in any society – and indeed desirable, for we are not trying to create a mediocre mass society, in which everyone is levelled down to a uniform denominator. Thus we can hardly imagine a society in which University education, for example, does not create a degree of élite feeling. But provided the society has an egalitarian ambience and no deep class divisions, the élite need not be divided by any large gap from the mass of the population, who will therefore not feel markedly envious or inferior – indeed the term élite can scarcely be said to apply. This is the case in Sweden or the United States, where there is little trace of an élite psychology because there are no glaring status differences between top and bottom, and no sense that the leaders belong to a different and superior class. All have shared broadly the same school education, there are no sharp differences of accent or style of life, and no deep consciousness of social inferiority or superiority.

But too much 'éliteness', and too great a detachment and remoteness from the rest of the population, are clearly undesirable. Yet this might easily be the case in Britain even with equal opportunities – generally on account of our traditional and deeply-embedded class stratification, which, although no doubt jolted, might not be sufficiently disturbed by the greater mobility: and particularly because we have a segregated, privileged system of schools. A concentration on equal opportunity alone would mean that we retained the present (highly unequal) educational and prestige relationship between the public, grammar, and secondary modern schools, but simply ensured that selection for the first two was open to all and genuinely by merit – that is, we should throw open the doors of Eton to competitive examination.<sup>1</sup>

The implications of such a policy are discussed in detail in

<sup>1</sup> I concede that I begged this question when briefly discussing education in the context of the social services (*v.* Chapter VII), and assumed that we should adopt the wider goal of social equality, and seek to equalise the standards and status of different types of school.

the chapter on Education. Here I will only say, anticipating, that the gulf between the different educational tiers is so wide that even with equal opportunity an excessive gap between élite and non-élite would still persist. It might persist in any event simply because the child population was physically separated into different schools at an early age. But, in addition, the gulf between Eton (even with competitive entry) and a secondary modern school would still be such as to impart to children and parents alike an intense consciousness of an educational order of merit.

Nor is this simply a matter of snobbery and social prestige (though it would not necessarily be less significant if it were). It also reflects very real objective differences. Not only is the education in public and grammar schools immensely superior, but the Eton boy, even though he came from a working-class home, would still end up a quite different person from the secondary modern boy in his accent, dress, manners, outlook, and entire style of life. Thus the juvenile population would remain divided into separate, superior or inferior, social classes.<sup>1</sup>

This segregation during the formative years necessarily intensifies inequalities in after-life. Not only are the contrasts in social manners carried on into adult life, where they remain a conspicuous index of class location: but because educational background is increasingly the main determinant of occupation, and hence of other status criteria – income, power, and occupational prestige – divergences in adult status are significantly widened by being superimposed on prior divergences in educational status.

Given that these divergences are so wide, the mere fact that opportunities of joining the élite are equal will not cure all the frustrations and resentments due to social inequality. For one thing, neither parents nor children will feel that the chance was really equal when it presented itself at so early an age as 11. However elaborate the provision for subsequent transfer, those who fail at 11 will always maintain that if only the selection had occurred later, the results would have been quite different; and they will resent being given an inferior docket for life at an age

<sup>1</sup> Chapter XII gives further evidence for the thesis that our educational system, if we concentrate simply on making opportunities equal, will still tend to create an excessively privileged élite.

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when, looking back, they feel they were not fully developed, nor old and mature enough to realise what was at stake.

. Even if all the failures could be convinced that they had an equal chance, their discontent would still not be assuaged; indeed it might actually be intensified. When opportunities are known to be unequal, and the selection clearly biased towards wealth or lineage, people can comfort themselves for failure by saying that they never had a proper chance – the system was unfair, the scales too heavily weighted against them. But if the selection is obviously by merit, this source of comfort disappears, and failure induces a total sense of inferiority, with no excuse or consolation; and this, by a natural quirk of human nature, actually increases the envy and resentment at the success of others. This is the kernel of truth in the anti-competitive theories discussed above: that *if the inequality of rewards is excessively great*, the creation of equal opportunities may give rise to too intense a competition, with a real danger of increased frustration and discontent.

Now whether, for the population as a whole, this additional discontent outweighs the compensating gains, no one can tell. The point is simply that equal opportunity, if still combined, as it might be in Britain but is not in Scandinavia or North America, with a marked stratification between an élite and the rest of the population, will not remove all the discontents which extreme inequality creates, and in particular cases may even intensify them.

And there is a more general argument on grounds of justice. People do not want to be ruled even by a select élite. They feel that such disparities cannot be justified on any grounds, and that the whole system is basically unfair. And there is much in what they feel. Admittedly, from the point of view of social justice, an aristocracy of talent is an obvious improvement on a hereditary aristocracy, since no one is in fact denied an equal chance. Yet I do not believe, as a personal value judgment, that it can be described as a 'just' society.

It implies that very unequal rewards and privileges are distributed solely on the basis of, if not one, at any rate a particular group of traits of human personality;<sup>1</sup> for any selection must in practice be based on a limited number of more or less known

<sup>1</sup> My views on this point owe much to discussions with Mr. Michael Young.

and measurable aspects of character. Let us suppose that intelligence is made the main criterion. Why should this trait be singled out for such exceptional treatment? One might hold this to be palpably unjust on the grounds that superior intelligence is largely due to parental status, through a combination of heredity and beneficial upbringing: and that no one deserves either so generous a reward or so severe a penalty for a quality implanted from outside, for which he himself can claim only a limited responsibility.

But whether inbred or not, why should this one trait, or even a group of traits, alone determine success or failure, riches or poverty, a high or low prestige? Why should no marks be given for saintliness, generosity, compassion, humour, beauty, assiduity, continence, or artistic ability? These questions denote no anti-intellectual bias – matters would be in no way improved if we chose some other trait to be the sole criterion for exceptional rewards. It is the injustice of isolating, as a basis for extreme inequality, certain selected ones out of the multiple strands that go to make up the human personality, which constitutes the fundamental ethical case against any élite or aristocracy.

Of course the practical reasons for rewarding outstanding ability generously are obvious enough; and any society would be foolish not to offer such rewards as will attract the ability into the service of the community. But if this requires such large differential privileges as to create a distinct élite, differently educated and socially select, it must be regarded as an unpleasant concession to economic efficiency, and not as being intrinsically just. In practice, however, I do not believe, after studying the experience of the U.S. and Scandinavia where the selection is highly efficient yet social equality much greater, that the inequality and class segregation, which would characterise an élite of ability in Britain under our present educational system, could possibly be justified by any considerations of efficiency.<sup>1</sup>

Judged by the third argument for equality, that it reduces social waste, an élite of talent of course scores much more heavily, since it eliminates the waste involved in a hereditary, non-competitive selection for the highest posts. Yet if children are divided into separate streams at 11, and the streams flow through such very different country as they do in Britain, it would still

<sup>1</sup> This point is further discussed in Chapter XII.

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not eliminate the waste associated with restraints on uninhibited social mixing, and the resultant loss of goodwill and breadth of personal experience.

One particular consequence of this, to which attention is often drawn, has disturbing political implications. If the best brains in the working class, creamed off by scholarships and grants, are steered into a distinct and superior educational stratum, the working class will increasingly lose its natural leaders, and have to rely either on the second-rate, or on people who, having been subjected to a quite different educational experience, may now be untypical and remote from working-class psychology. Society's educational talent-scouts will spot the future Bevins and Morrisons at an early age, and rush them off for training as members of the élite; and the Trade Unions will be led by the indifferent residue, and the Labour Party entirely by Old Etonians. This cannot be good for the quality of democracy; yet it follows inescapably from an élite system of education.

This is one aspect of the wider point that an élite must by its very nature be aloof and detached from the mass of the population. It may therefore grow impatient, or ignorant, of what people really want, and be inclined to give them what it thinks they ought to want. We should be saddled with a system of government, efficient and benevolent no doubt, but essentially paternalistic in outlook. There is intrinsically an illiberal and superior quality about élite government, which should make it instantly suspect to a socialist, and indeed to any democrat.

The conclusion must be that in Britain equality of opportunity and social mobility, though they lead to the most admirable distribution of intelligence, are not enough. They need, not to be played down, as some sociologists would have us do, but to be combined with measures, above all in the educational field, to equalise the distribution of rewards and privileges so as to diminish the degree of class stratification, the injustice of large inequalities, and the collective discontents which come from too great a dispersion of rewards. The limited goal is not, from a socialist point of view, sufficient.



## XI

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### SOME ARGUMENTS AGAINST EQUALITY; AND THE AMERICAN EXAMPLE

#### 1 *The Threat to Economic Efficiency*

THIS chapter discusses some common criticisms of the objective of greater equality, and also considers the United States as a test-case of the factors affecting social equality.

The most fashionable criticism runs in terms of the likely effects of equality on the growth of output and living standards, via its adverse reaction on incentives, the supply of savings, and economic efficiency generally. But this criticism is of only limited relevance to the issue of more equality as it is treated in this book. The influences making for class inequality were listed in Chapter VIII as the mobility factor, and a number of distance factors. So far as the former is concerned, it is evident that greater mobility would be positively good for efficiency, since by weeding out those whose only pretensions were inherited wealth or lineage, it would strengthen the calibre of the country's economic leadership. Of the various distance factors, it is hard to see that a greater equality of educational standards, style of life and consumption habits, or occupational prestige could do much harm. Sweden and America both combine much greater equality in each of these respects with a degree of productive efficiency at least comparable with our own.

The obviously relevant distance factor is the distribution of wealth. We may at once concede that greater equality will tend to diminish personal savings. But to maintain large inequalities simply in order to guarantee a certain flow of personal saving

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seems rather a lop-sided approach; and I therefore take this to be an argument, not for surrendering the objective, but for taking counter-measures to ensure sufficient savings from other sources. This is discussed in Chapters XIX and XX.

On incentives to effort and innovation there is not much to be said in general terms. As I suggested earlier, our present knowledge of economic psychology hardly justifies dogmatic statements – if we were not aware of this already, we should have learned it from the falsification of so many post-war prophecies about the effect of high taxation on incentives. Moreover the whole question of incentives is at least as much a cultural as an economic issue; conventional notions of what constitutes a reasonable reward are not immutable, and for all we know may be quite different in ten years' time from now.

We can be reasonably sure, it is true, that some methods of redistributing work-incomes would have a bad effect – notably, much higher taxation of marginal earnings. But this does not much weaken the socialist case. The largest inequalities stem not from the distribution of earned incomes, but from the ownership of inherited capital; and a desire to redistribute earned income is not one of the most urgent socialist objectives. In so far as we do want more equality of earned income, we must simply proceed slowly in the manner suggested in a previous chapter.<sup>1</sup> But the whole question of combining equality with a rapid rate of economic growth is fully discussed in Part Five.

### II *The Threat to Culture*

The second criticism is more fundamental, being based not on economics or practical expediency, but on a denial of the basic value judgment that greater equality will lead to a 'better' society, even assuming no unfavourable effect on output. This approach, which is based essentially on the belief that equality and culture are mutually antagonistic, has a long history; but as a basis for discussion I shall take its most recent expression by M. Bertrand de Jouvenel.<sup>2</sup>

An egalitarian distribution of wealth, writes M. de Jouvenel,

<sup>1</sup> v. Chapter IX, p. 213.

<sup>2</sup> *The Ethics of Redistribution* (Cambridge University Press, 1951).

will give an 'optimum' position only in relation to subjective wants, by which he means economic satisfactions in the utilitarian sense. The demand for equality is thus based on the assumption that incomes are to be regarded solely as a source of individual consumer-satisfaction; and in this narrow sense an equal distribution might give us an economic ideal. But it will not give us an ideal society as judged by non-economic considerations, since the process of redistribution must involve heavy losses in other directions: notably, the disappearance of all those artistic and cultural activities now kept alive by the patronage of the rich, and of all those socially valuable leisure occupations which depend on a comfortable surplus of income over needs (good conversation, hospitality, prolonged travel abroad, unpaid voluntary work). It is not enough that the State should make alternative provision, since, besides being less efficient, this would involve an altogether undesirable enlargement of the role of government. Once we take these non-material losses into account (though, to be fair to economists, they have long been subsumed under the heading of external economies of consumption by the rich), we can be fairly sure that a greater equality of wealth, so far from promoting, would positively menace what most people mean by the 'good' society.

Now these are seductive arguments, especially to socialists, always neurotically afraid of being thought alphabetic vulgarians, or materialists who care nothing for cultural values. And indeed if we accept the inevitability of cultural losses, this argument might be thought, depending, of course, wholly on the individual's scale of values, to destroy an egalitarian case based solely on utilitarian economics. But it was made clear in Chapter IX that the real case for more redistribution was not now based on a utilitarian calculus, or on statements about economic satisfaction or welfare — indeed, I categorically disclaimed any certainty that further redistribution would increase economic welfare. The case rests, just as much as M. de Jouvenel's counter-argument, on non-economic value-judgments, and on a view of what constitutes a 'good' society. A denial of economic utilitarianism leaves this case wholly intact. One would simply have to measure a cultural loss against a gain in social justice or contentment.

In weighing these losses and gains, two points would appear to

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be relevant. First, if we accept for the sake of argument the inevitability of a cultural loss, what degree of counter-loss in respect of justice and contentment – that is, what degree of inequality – are we asked to endure in order to escape the cultural loss? Secondly, is it in fact the case, so far as mid-twentieth-century Britain is concerned, that there need be a cultural loss at all?

First, how much inequality is supposed to be needed? It might be rather a large amount – if, for example, cultural activity were an increasing function of inequality. Thus it might be that culture was at the margin of expenditure by the wealthy, in which case if the masses could be squeezed to make the wealthy wealthier still, there might be an exceptionally sharp proportional increase in cultural spending – with slavery, presumably, as the logical conclusion. 'It is very difficult indeed', remarked a famous Greek scholar, 'to overrate . . . the advantages of having slaves, if men desire to keep a fine edge on their aesthetic faculties.'<sup>1</sup> Unfortunately not many cultural enthusiasts are as frank as Mr. Clive Bell, who writes that 'civilization requires the existence of a leisured class, and a leisured class requires the existence of slaves. . . . On inequality all civilizations have stood. The Athenians had their slaves: the class that gave Florence her culture was maintained by a voteless proletariat: only the Esquimaux and their like enjoy the blessings of social justice.'<sup>2</sup>

Now it is perfectly reasonable for those who believe this, and who place culture supreme above all other values, to advocate as unequal a society as they choose; though not many people to-day would share their scale of values. But the trouble is that most contemporary anti-socialist writers are less forthright, and fail to make their scale of values clear. In particular, do they demand on behalf of culture at the very least a return to the pre-war spread of incomes: or do they, conceding that culture must be balanced against other 'goods', merely oppose any further moves towards equality? One might take rather a different attitude according to which of these two positions they adopted.

But in any case, is it true that greater equality will necessarily involve a cultural loss? The answer presumably depends on a comparison between the proportion of their surrendered wealth which the rich were previously spending on culture, and the

<sup>1</sup> J. P. Mahaffy, *Social Life in Greece* (Macmillan, 1925 ed.), p. 441.

<sup>2</sup> *Civilization* (Pelican Books), pp. 175, 179.

proportion so spent by the transferees – the state, or the workers, or whoever they may be.

In certain past ages, the former proportion might well have been high – but surely not in Britain to-day. Only a rather insignificant fraction of surtax incomes is directed towards art or culture, or indeed towards any intellectual activities whatever; the bulk goes on expensive cars and houses, holidays in Cannes, servants, gin, hotels and restaurants, dances, lavish parties, and the like. There is no need to be censorious about such activities, which are no doubt often bracing. But they hardly uplift the cultural standards of the community; and we should not be asked to underwrite them on the pretext of subsidising art. Cultivated foreign visitors, charmed by the civilised hospitality of Cambridge Common-rooms, may think their reception typical of the lives of the English wealthier classes. But indigenous critics have no such excuse.

Indeed Britain can perhaps claim in recent times to have had one of the most illiterate wealthy classes in history.<sup>1</sup> At any rate, private patronage in the century up to 1939, when the more rapid income-redistribution began, could hardly be said to have had a uniformly splendid record; one thinks of much of what it built, of the innumerable Georgian buildings in London it failed to save, of the art-treasures it allowed to flow to New York and Chicago, and of the furious revolt against existing society of so many of the outstanding artistic figures of the period.<sup>2</sup> Of course one can never generalise about different forms of patronage – in some periods private patronage has been wholly beneficial.<sup>3</sup>

<sup>1</sup> Mr. Clive Bell would agree on this at least. 'The proportion of the existing leisured class which could be described as "highly civilized" is absurdly small. . . . We may suppose that the future could devise some method which would exclude from the leisured class at least two-thirds of those whose names now swell the peerage and whose portraits enliven "the weeklies". . . . Take every two-thousandth baby and you will almost certainly get a better result than you get from the present system.' (op. cit., p. 181.)

<sup>2</sup> Would any of the following, for example, have considered the preservation of the existing social system in Britain as being essential to culture: Carlyle, Ruskin, Browning, Matthew Arnold, William Morris, Whistler, Meredith, James Joyce, or D. H. Lawrence? Though Sir Alfred Munnings and Professor A. E. Richardson no doubt would.

<sup>3</sup> No doubt the eighteenth century was such a period, though not all contemporary observers thought so. John Wesley, who lived through the middle of it, always referred to the rich as the 'great vulgar'. 'There is so much paint and affectation, so many unmeaning words and senseless customs among people of rank, as fully to justify the remark made seventeen hundred years ago, *Sensus communis in illa fortuna rarus*.' (Quoted in *John Wesley*, by C. E. Vulliamy, p. 248.)

But we are concerned with contemporary Britain; and here, surely, the cultural loss from a further transfer of wealth would be so small that the transferees and the state would have to do very badly not to be able to compensate for it.

Why should the transferees not make up some of the loss? Indeed they must do so, if we accept the causal linking of culture and inequality; for this presupposes that cultural spending is an increasing function of a surplus of income over subsistence needs. This is presumably true, to some extent at least, of beneficiaries as well as losers. People sometimes deny this, pointing to the high proportion of incremental working-class income spent on drink, tobacco, gambling, and so on. But for reasons given in Chapter XIII, it is certain that this proportion will now rapidly decline.<sup>1</sup> And even to-day it is clear from attendance figures at art galleries and concerts, the number of books borrowed from public libraries, the sales of periodicals, and the week-end crowds at Longleat and Luton Hoo, that some of the recent extra income and leisure has been well spent.<sup>2</sup> Much of it, moreover, is spent on travel (abroad as well as to the sea), which must have some broadening effect on people's minds.

But even if there is a net loss so far as private individuals are concerned (e.g. in respect of the upkeep of historic houses), what is the difficulty about public bodies stepping in to fill the gap? M. de Jouvenel says that they will spend less 'efficiently' than private individuals. I cannot see why. No doubt public patronage has as patchy a historical record as private patronage – from the Greek temples and many of the masterpieces of the Renaissance at one extreme, to the arid consequences of Louis XIV or Stalin at the other. But it performs at least tolerably well in Britain at the moment. The Arts Council, Covent Garden, the art galleries, the British Museum, the Edinburgh Festival, much of the serious theatre, ancient monuments, many historic mansions, and to a growing extent even the Universities, all subsist on, or are aided by, public funds; and the State has not shown itself notably Philistine or unduly interfering as a patron. Innumerable grants

<sup>1</sup> v. p. 291.

<sup>2</sup> Nor are Teddy-Boys, often deplored as the first awful outcome of the egalitarian welfare state, a convincing argument on the other side. Certainly they include delinquents amongst their number. But they represent the first awakening of a genuine working-class interest in sartorial elegance; and they are also steeped in what is now becoming a genuine popular culture amongst the young – the study of jazz.

are made for cultural foreign travel, which most of the recipients could certainly not otherwise afford. The Festival of Britain, which gave more splendid openings to young architects than they had enjoyed for a long time past, showed that the State can even initiate, as opposed to merely supporting, artistic endeavour of the highest quality. There have been many errors, notably in the sphere of town and country planning, and many omissions.<sup>1</sup> But there seems no clear case for saying that the state will do, or is doing, either much worse or much less in the role of patron than the British wealthier classes who would suffer from further redistribution.<sup>2</sup>

The final fear is lest an extension of public patronage may whittle away our liberties. Now there may easily, under certain circumstances, be a real danger in the growth of state bureaucracy; this is discussed in a later section. But it can hardly be taken seriously in the field of culture. Public patronage is invariably decentralised to independent bodies moving on the loosest possible rein, indeed on virtually no rein at all. It is vigilantly scrutinised by Parliament, and over-vigilantly by a section of the Press. All parties agree that public monies should not carry with them state control over their expenditure. Generally, it is hard to see the Arts Council or the University Grants Committee as the thin end of the totalitarian wedge – rather, indeed, the opposite; for by helping to create a more literate and sophisticated electorate, they make us less likely to succumb to the wiles of a would-be dictator.

I therefore see no reason to think that the cultural loss from a further move towards equality, if indeed it is positive at all, cannot be offset by public action. And indeed, as I shall suggest in Chapter XXV, the more completely we conquer the old social and economic enemies, the higher a priority we should give to cultural activity by public bodies – the more imaginatively we should plan, and the more generously we should spend, to beautify our country and civilise our way of life. No one can say that British capitalism has set a very high standard for British socialism to improve on.

<sup>1</sup> *v.* Chapter XXV, Section V, for a discussion of some of these.

<sup>2</sup> The arrival of the Welfare State and greater equality in Britain has in fact coincided with a marked renaissance both in music and the plastic arts (though not in literature).

III *The Threat of the Mass Society*

The alleged threat to culture from equality is often confused with the alleged threat to culture from the 'mass society'. These are in fact distinct points, since the democratic mass society with its consequent mass culture may be an inevitable product of modern technology, rates of growth, and popular education, almost irrespective of the degree of equality. However, I suppose one might maintain that the more egalitarian and democratic a society, the more its culture must take on a 'mass' quality, and hence the greater the danger of conformism, anti-intellectualism, and a general cultural levelling-down.

How great is this danger? It is always said to be present in an extreme form in the United States. American professors, for example, soothed by the more respectful treatment apparently accorded them in Europe, often complain of the low place which they hold in public estimation at home. In fact the occupational hierarchy in the U.S., according to sociological studies, gives professors as high a ranking as they have in Europe.<sup>1</sup> And even if this is mistaken, and professors are really held in worse regard, this might surely be due not to anti-intellectualism, but to the absurd proliferation of the title in American Universities, which naturally debases the coinage: or, more generally, to the fact that American Universities, having never had the cloistered and scholarly character of European Universities, but having been always an accurate mirror, and very much part and parcel, of ordinary American society, have never enjoyed the exceptional prestige, amounting almost to veneration, accorded their more remote European counterparts. 'The University in America is not a community of scholars, but an enormous agglomerate service station, where one can be born, go to kindergarten, lower school and high school, meet the girl-friend, and get married, where one can get religious solace or psychiatric help; where one learns to turn out a newspaper, to do bookkeeping, to cook. No wonder the Universities have been hiring generals to run this domain.'<sup>2</sup>

<sup>1</sup> I owe this fact to Professor Lipset of Columbia University.

<sup>2</sup> Quoted in an article by Henry Steele Commager, *The Reporter*, October 21 1954.



Generally, I am rather sceptical about the conventional insistence on American cultural conformism and low mass standards. Many of the glossy magazines maintain a higher cultural level than their European counterparts.<sup>1</sup> Standards of industrial design, from ash-trays through furniture to cheap women's clothes, are significantly higher than in less egalitarian Britain. The output of Hollywood is much less standardised than non-film-going intellectuals suppose.<sup>2</sup> More dollars are spent on classical concerts than on baseball. Sales of books have doubled in a decade. Standards of working-class cooking, both at home and in restaurants, are incomparably higher and more varied than in England. As for conformism, no doubt the pressure is there; nevertheless there are constant successful popular revolts against commercial standardisation – as, for example, the post-war revival of traditional and progressive jazz, as against the standardised large-band 'swing' fostered by the commercial interests.<sup>3</sup>

But even if we assume the U.S. to be a cultural nightmare, the same certainly cannot be said of Sweden, an equally democratic and egalitarian society. In no country of the world is the quality of academic life more distinguished, the prestige of the scholar and the intellectual more elevated. And the Swedish level of popular culture is of course world-famous. It can be observed in the uniformly high standards of industrial design, the elegant parks and pleasure-gardens, the typical shop display and lay-out, the graceful popular restaurants, the pictures by modern artists even in milk-bars, the open-air sculptures on housing estates, as well as in the better-known spheres of town planning and modern architecture. And, significantly, almost the whole of this cultural enlightenment is due to public patronage. The fact that Sweden enjoys both more social equality, and a higher average standard of culture, than Great Britain, suggests that we need not get too fussed on this point.

<sup>1</sup> Though not all – such magazines as *Confidential* can hardly be considered elevating.

<sup>2</sup> No films featuring, for example, Messrs. Brando, Ferrer, Welles, Bogart, Douglas, Grant, or Webb, or the Misses Davis, Hepburn, Winters, Lupino, Julie Harris, whatever else may be said against them, could be held to be encouraging a standardised uniformity of outlook.

<sup>3</sup> Religion in the U.S. displays a wildly eccentric non-conformism by European standards.

IV *The Threat to Liberty*

It is sometimes said that equality must threaten personal liberty. This is often argued on wide political grounds, relating to the possible tyranny of the 'mob' or the 'masses', who are, it is said, Mill, de Tocqueville, and Acton being called in aid, characteristically indifferent to freedom and hostile to non-conformity. And indeed it is clear that popular rule, or the participation of the masses in politics, is no guarantee of political liberty, and that 'democracy' in this sense and personal freedom are by no means synonymous. Thus it is easy, even in recent history, to find bitterly anti-libertarian movements which enjoyed genuine mass backing, as, for example, Fascism and McCarthyism, or which were mainly based on working-class support, as Communism and the Peronista Labour Unions. Similarly it may be true (though rather natural) that the working classes are sometimes less liberal than more educated classes – e.g. they may be more anti-Semitic or anti-Catholic, or racially prejudiced, or intolerant of dissent.

But this has little to do with the point under discussion. We already enjoy in Britain a form of political democracy which is strikingly stable, which in no way partakes of mob rule or mass violence, and which, based as it is on a long liberal tradition, is exceptionally tolerant of dissent. Even if we attained a greater degree of equality, we should still retain our Parliamentary institutions, our liberal tradition, and a national character strongly attached to personal freedom. There therefore seems no good reason why our political liberties should be curtailed. We have, after all, more social equality than 100 years ago, yet most people would judge that our liberties were also greater; it is not clear why the trend should suddenly be reversed. And so far as personal illiberalism is concerned, a more equal spread of education will obviously improve matters.

It might, however, still be argued, not that equality represents a positive menace to freedom, but that inequality represents a negative protection of freedom against certain imminent dangers. These dangers might stem from the inevitable growth of a state bureaucracy impinging heavily on the lives of individual citizens; or, more generally, from the potential tyranny of voluntary groups

(whether social, political, or religious). One possible defence against such threats, it is said, is the possession of private means. This enables at least a few fortunate citizens to finance what may be a long and expensive campaign against, for example, the threat of dispossession by a Government Department, or even a threat of expulsion by a strongly-organised voluntary body. Crichel Down comes obviously to mind; but history provides many examples of men fighting and winning battles for personal liberty and the right to dissent solely because they had the financial resources to sustain them.

This is a serious point, though with only a limited application to the case presented in this book. It is scarcely relevant at all to most of the inequalities which have been discussed. Even in the one relevant sphere of wealth-distribution, it does not require that we preserve all our millionaires on the off-chance that one of them may fight an occasional battle for freedom, any more than on the off-chance that one of them may prove an enlightened patron of the arts. But it is an argument against carrying equality of wealth to a bitter extreme in which no one can ever be even temporarily self-sufficient, or have access to private resources on which to maintain himself while declining to conform.

This is not, in practice, an acute dilemma in this country, for British socialists have never wished to press matters to this extreme, or to destroy all moderate fortunes. It was, after all, a Labour Chancellor, Mr. Dalton, who raised the death-duty exemption limit from £100 to £2,000, and the Labour Party subsequently pressed successfully for its further increase to £3,000; while socialist literature on the death duties has never been very hostile to estates of, say, £20,000 and under.

Clearly amounts of capital such as these do offer the possibility of maintaining independence for a considerable period, and so of sustaining dissent or non-conformity, or a struggle against bureaucratic injustice. On the other hand, they are not inconsistent with reasonable socialist objectives. Although, therefore, there is a genuine libertarian argument (quite apart from more obvious economic ones) against a total flat equality, it in no way precludes the degree of equality suggested in this book.

v *Factors Affecting Social Equality in the U.S.A.*

It would hardly be denied that the United States had more social equality, and less sense of class, than Great Britain. I therefore take it as a test-case of the factors affecting social equality. I should have preferred to take Sweden, which in other ways comes much nearer to a socialist's ideal of the 'good' society: that is, it gives a higher priority to social welfare and the social services, it has a greater equality of wealth, it enjoys a more harmonious and co-operative pattern of industrial relations, it is characteristically ruled by socialist governments, and its cultural record is exceptional. But the choice of the United States is dictated by the fact that it is the only country about which a sufficient sociological literature exists to justify more or less definite statements.

This choice inevitably lays one open to misunderstanding. I must therefore make it clear that the analysis of social equality in America implies nothing about whether the U.S. is or is not a 'good' society, or a better society than Britain, in other respects such as foreign, economic, cultural, racial, or civil liberties policies. A high degree of social equality is, unfortunately, quite compatible with exceedingly reactionary policies in all these fields. Nevertheless, since socialists are concerned with social equality, it seems foolish not to study the American experience.

The facts about America are hardly in dispute. Objectively, class differences in accent, dress, manners, and general style of life are very much smaller; and one cannot, strolling about the street or travelling on a train, instantly identify a person's social background as one can in England.<sup>1</sup> Subjectively, social relations are more natural and egalitarian, and less marked by deference, submissiveness, or snobbery, as one quickly discovers from the cab-driver, the barman, the air-hostess and the drug-store assistant.<sup>2</sup>

<sup>1</sup> I suggest the following experiment to any sceptic: immediately after a visit to America, to travel first-class from Kemble to Paddington by the 9.4 on a Monday morning, and to follow this up with a walk through Shoreditch; alternatively, merely to stand (and listen) outside a large factory, or cinema, or football match, and compare it mentally with the same experience in the States.

<sup>2</sup> Bagehot once called England a 'deferential country'. No one could apply that phrase to the U.S.A.!

The consequence is much less sense of class stratification, and in particular of a three-class hierarchy (working, middle, and upper). Margaret Mead, in her classic study of the American character, writes that 'the American system is really a classification based on a ladder, up which people are expected to move, rather than upon orderly stratification or classification of society, within the pigeon-holes of which people are born'.<sup>1</sup> Thus the 'upper' classes are merely those 'whose only possible social movement is downwards. . . . They have no distinguishing manners and no distinguishing morals and no distinguishing occupation or lack of it. . . . If a member of the upper class of Baltimore should turn up in shabby clothes in Billings, Montana, he would find it very difficult to document his position. . . . Former residents of Baltimore might be able to identify him if they had known him personally, but not by his bearing and accent, as would be the case in England.'<sup>2</sup>

At the other end of the scale, there is less envy and resentment at high incomes, since those who enjoy them are not thought to belong to a different or superior class, or to have inherited them from their parents: less distinctive working-class psychology, either individually or collectively;<sup>3</sup> less belief in inevitable class conflict: and no parallel to the ideology of class betrayal described in Chapter IX. Workers who take managerial posts are not condemned as traitors to their class. Trade Union leaders are not thought to be in danger of contamination if they have large cars, and smoke cigars, and draw huge salaries. The Unions are not thought guilty of treachery if they co-operate with management to boost sales or raise productivity, or even accept a wage cut to save a firm from bankruptcy; nor are they suspect if they send their officials to Harvard and Yale for training, and employ large numbers of university graduates.

What accounts for the difference? Evidently not two factors which socialists might traditionally have looked for first: neither more public ownership and a less 'capitalistic' distribution of

<sup>1</sup> *Keep Your Powder Dry*, p. 58.

<sup>2</sup> *op. cit.*, p. 62. Of course one must exclude freak old-world survivals like the Creoles of New Orleans; some older regions in New England are also exceptional.

<sup>3</sup> And the contrast never fails to amaze Americans; cf. this typical comment from a very sympathetic account of a T.U.C. Conference: 'Labour observers from the United States have also been impressed, as Americans in England usually are, by the extent and the depth of the class-consciousness that still prevails among industrial workers.' (*New York Times*, 4 September 1952.)

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economic power, nor a more equal distribution of incomes.<sup>1</sup> This does not prove, of course, that these two factors have no relevance in Britain. The determinants of class feeling are not the same in every country, but vary with the cultural and historical background; and in Britain, more than in most countries, class tension and hostility are concentrated in industry, and appear to derive from work-relationships. This difference may be due to the greater efficiency of American industry, or the higher real wages, or the atmosphere of equal opportunity; and it may be that industrial class feeling in Britain, receding as other egalitarian measures take effect, will prove to have been only a rationalisation of quite different discontents.<sup>2</sup> But for the moment it is much stronger in Britain, and might be thought to provide a *prima facie* case for changes in the industrial structure.

Similarly with respect to incomes. Any given degree of income inequality may induce more or less resentment, and be considered more or less unjust. In Britain, the resentment and the injustice are both greater. This is due partly to the American Horatio Alger and 'rags to riches' tradition, which, by offering a greater hope of reaching the top, thereby diminishes the resentment against those already there: and partly to the fact that a higher proportion of large incomes in Britain, being unearned and derived from inherited property, do not have the excuse of being a reward for personal effort or ability.

A popular view is that the difference between the two countries is due simply to the greater vertical mobility in the United States. But recent studies have shown that vertical mobility *as such* is not significantly greater, and that sons of manual workers have only the same chance as in Britain (and other European countries) of rising to higher, non-manual occupational status.<sup>3</sup>

This does not mean, however, that the question of mobility is

<sup>1</sup> Income distribution appears to be very similar in the two countries (v. A. M. Cartter, 'Income Shares: Great Britain and United States', *American Economic Review*, December 1954.)

<sup>2</sup> v. Chapter XVI for a further discussion of these various possibilities.

<sup>3</sup> v. Glass, *op. cit.*, and for a summary of the evidence, S. M. Lipset and N. Rogoff, 'Class and Opportunity in Europe and the U.S.', *Commentary*, December 1954. There appear to be two reasons why so many major countries exhibit a consistent upward pattern of mobility: first, they have all experienced for the past three decades a pronounced growth of white-collar relative to manual occupations, which of course creates the possibility of upward movement; secondly, in all of them the high-status categories have been bearing proportionately fewer children than the low-status categories, thus leaving still more room for upward movement.

irrelevant. Although vertical mobility is no greater in America, horizontal and geographical mobility both are. There is, as compared with Europe, an exceptionally large and persistent movement of population into the cities, due to the steady decline in the size of the (extremely large) agricultural labour force. The urban American economy thus offers ample opportunities, not necessarily for rising in the social scale, but for changing occupation, for starting afresh in new surroundings, for leaving home in search of wealth and fame. This favourable 'opportunity structure', arising from a major structural change in the economy, does make for a more fluid and mobile society, with a weaker link between parental and filial status.

In any event, whatever the facts about relative vertical mobility, the accepted image of it is strikingly different in the two countries. Americans *believe* in the 'office-boy to president' mythology. The level of aspiration is therefore higher, the hope of achieving the aspiration greater, and the individual's life-perspective generally more buoyant. This of course is immensely significant for social attitudes and morale. The difference is no doubt partly due to the greater spatial fluidity just mentioned. But it is also due to the egalitarian ideology which causes top executives to boast, not of their lineage, but of their humble origins; in Britain, by contrast, self-made men often try to play down their social origins, and feel embarrassed and inferior at not having been to a public school.<sup>1</sup> Thus in America the prevailing ideology emphasises, whereas in Britain it tends to conceal, the extent of vertical mobility; and this helps to foster the picture of a land of equal opportunity.

The mobility factor therefore accounts for some part of the difference between the two countries. Historical factors naturally account for a further part. They account, for example, for the fact that in the U.S. the traditional-conservative, as well as the liberal-radical, ideology has been egalitarian from the start, whereas in Britain it has consistently been (and still is fundamentally) anti-egalitarian. The assumption, sanctified by the famous words of the Constitution, of a natural human equality, has had a profound influence in orienting American social attitudes in an egalitarian direction; and the results may be observed

<sup>1</sup> Thus the autobiographies of successful American businessmen have such titles as *The Story of an American Workman*; cf. the frequent (and often rather misleading) advertisements put out by large companies boasting that all their top executives started at the bottom and worked their way up.

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far outside the sphere of class relationships – in the relations between the sexes, for example, or between voters and politicians, parents and children, teachers and pupils, officers and other ranks.

This difference again reflects the fact that the U.S. never developed a stable, hereditary ruling-class, or those prestige-symbols, characteristic of a ruling-class, which still persist in Britain even though the precise class structure which gave them birth has largely passed away. Such symbols either do not exist at all in America; or, if they do, they are imitative and artificial, and have little social significance. To take some examples at random, there are no titles of any kind; a few 'prestige' schools exist, but carrying a social weight and snob appeal in no way comparable to those of the major English public schools; no distinct ruling-class style of architecture has ever emerged, but only lavish imitations of Tudor mansions, French chateaux or Renaissance palaces; there are debutantes, and even a Social Register, but they are not taken seriously outside a very narrow circle.

Another major difference lies in the more amorphous character of American society, and particularly its greater ethnic heterogeneity. The second-generation American never developed a proletarian class-consciousness, because he was never a proletarian – the lowest-status jobs were always taken over by Negroes, or by the next wave of immigrants.<sup>1</sup> Virtually no second-generation whites, for example, have ever done domestic service. This particular influence is no doubt weakening with Negro emancipation and the decline of large-scale immigration, but not before it has fulfilled, as it were, its historic function of inoculating the American worker against a proletarian class outlook.

There are, however, other reasons for the differences which are not peculiar to the U.S.A., and which do carry a moral for socialists in Britain. The first and most important is the educational system, which has none of the fissiparous effect on society produced by the British system. The first reason for this is the absence of any segregation at 11+ in the state school sector. Public secondary schools are 'comprehensive'; and the huge majority of the population therefore share the same educational experience up to the time when they leave school.

<sup>1</sup> In Professor Hofstadter's phrase, immigration acted as an 'automatic built-in status elevator'.



It is true that private schools exist, possibly even in the same proportion to the whole as in Great Britain. Yet they create no national educational élite as do the British 'public' schools. The figures for private-school pupils are in fact rather misleading. Far more of these schools than in Britain are simply parochial, especially Catholic, schools; and of the remainder, a high proportion are concentrated in small geographical areas – in traditional New England, the 'social register' areas of New York State and Florida, and certain parts of the South. And the figures are misleading in another way, since a much larger number of private-school pupils than in Britain attend a private school for only a part of their educational lives, and spend the remainder in state schools.

In any event, there is much less social gap between the average public and private school. Educational standards (in most areas) are more nearly comparable than in England; and there is no wide gulf in social prestige – few private schools, for example, are at all widely known by name. And, most important, there is little difference in the school leaving age; the great majority of high-school pupils remain until 17 or 18, and one of the major causes of the wide status gap in Britain is thus avoided.

The consequence is that employers are much less interested in an applicant's school (as opposed to college) background, and seldom ask what school he went to. Different schools carry little weight in terms of job selection; and the school system does not, as it does in Britain, largely determine adult occupation, and hence access to other high-prestige criteria – income, power, and occupational status.<sup>1</sup>

Secondly, the pattern of consumption is markedly more equal than in Britain. 'Prestige-goods' are widely distributed, and there is less conspicuous contrast between the standard of living of different income-groups. To take the most obvious example, almost every family owns a car; and this is significant not only because a car is the most conspicuous of all consumption goods, but also because universal car-ownership leads to the universal

<sup>1</sup> A further reason for the lack of correlation, as compared with Britain, between school and occupational status is that not only is the number of children who have had a 'segregated' education relatively less, but the number of non-manual jobs is relatively greater. Thus a high proportion of non-manual jobs are filled by ordinary high-school pupils; and the tiresome British correlation (grammar or public school = non-manual job, secondary modern = manual), so strongly productive of class feeling, is largely avoided.

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consumption of other conspicuous or semi-luxury goods – holidays, hotels, middle-class habits of shopping, etc. But the lack of external class-distinctions can be observed in many other spheres: e.g. clothes, eating-habits, drug-stores, the ownership of consumer durables, and so on.

This greater equality in consumption habits and style of life is not due to a greater equality of incomes. No doubt it has many and varied causes: the egalitarian tradition which hindered the emergence of obvious class differentiation in matters such as dress: the influence of the mass media of communications: the American trend towards conformism: the gadget-minded and novelty-oriented American character: and above all, as I shall argue in Chapter XIII, the fact of an absolutely higher standard of living. But whatever the exact cause, it is a factor of profound importance in creating a sense of social equality.

A third factor is the diminishing importance of economic class pressures in a high-consumption society. This is the 'technological' factor referred to in Chapter VIII. In such a society, as poverty disappears, so does the driving pressure towards economic conflict. Any desired consumption-good becomes more and more easily accessible; and economic envy is diminished. Leisure increases relative to hours of work, and the importance of consumption factors relative to that of productive relationships. The 'service' grows relative to the manufacturing population, and technical and non-manual relative to unskilled manual labour; and the outlines of distinct economic classes become increasingly blurred. All this has conspicuously occurred in the U.S.A., with the result that social attitudes are less dominated than in Britain by consciousness of economic class.<sup>1</sup>

None of this is to be taken to mean, as I have already pointed out, that America is a superior society. Social equality can quite well be combined with a reckless foreign policy, an illiberal attitude to civil liberties, an unenlightened tariff policy, an excessive tenderness to business interests, large-scale unemployment, social intolerance, and all manner of reprehensible things.

Nor does it mean that there is no labour-management conflict in industry – on the contrary, there is; and the Unions often wage

<sup>1</sup> Interesting evidence of the influence of this factor is to be found in the Lynds' Middletown studies. They found that between 1925 and 1935, the consciousness of economic class differences had noticeably increased as a result of the depression (*Middletown in Transition*, pp. 450 seq.).

it more militantly and violently than their British counterparts. But because it exists, it does not follow that a whole theory of sociology can properly be built around it. And in the U.S. it is much less significant for social attitudes as a whole. It goes both less deep, since it does not dominate the whole social orientation of the individual; and less wide, since it does not determine attitudes outside the strict productive sphere as it does in Britain (e.g. political attitudes – witness the absence of a Labour Party, and of any serious pressure to establish one).<sup>1</sup> The economic class conflict exists, but is not carried over into ‘off-duty’ or ‘after-hours’ relationships.

Nor does greater equality mean that America can show no violent social conflicts and resentments; it is only that these can normally be traced to ethnic or racial, and not to direct class antagonisms. Nor, again, does it mean that one cannot speak at all in terms of social classes:<sup>2</sup> or that there are no prestige-symbols, expressive of social standing:<sup>3</sup> or that there are no social gradations (as of course there must be in any society).<sup>4</sup> It is simply that class distinctions are less pervasive and less hereditary, social attitudes less class-conscious, the atmosphere more natural and unrestrained, the social ladder as a whole much shorter, and social envy and resentment less – in sum, social equality is greater.

The reasons for the difference tend to confirm the analysis of Chapter VIII. The technological factor (the stage of economic development) is evidently of great importance. The mobility factor is significant for the image of it which exists in the public mind. But because this image is different in Britain, and because

<sup>1</sup> And the pressure is weaker to-day than 40 years ago; similarly Trade Union attitudes are less ‘class-conscious’ now than then.

<sup>2</sup> Thus Lloyd Warner divided Yankee City into six classes – upper-upper, lower-upper, upper-middle, lower-middle, upper-lower, lower-lower. But it is doubtful if these divisions would be thought to have much significance if American thought were not oriented in European terms. ‘It is possible to describe the American system without mentioning class. . . . If our European observer could be eliminated, I think that is the way it would be done. An observer from a country without a feudal past, or an observer from a country still in the feudal state, would find . . . our temporary crystallization of status to have so little form as to be unworthy of primary mention.’ (Mead, *op. cit.*, p. 66.)

<sup>3</sup> e.g. East side and West side, uptown and downtown, silk-stockings class, station-wagon class, Scotch and Bourbon, Cadillacs, University Clubs and fraternities (in some areas), Groton, Ivy League, the Stork Room, the Social Register. But many of these (e.g. the Social Register) are a pure joke; and none carry the social weight of their British counterparts.

<sup>4</sup> In fact, Lloyd Warner (rather unconvincingly) lists 89 ‘social positions or statuses’!

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in addition we descend from a still deeply influential traditional and hereditary past, the 'distance' factors will need to be objectively more favourable to equality than in America. It is clear in any event that greater social equality in Britain will require a more egalitarian educational system, and a greater equality in the pattern of consumption. But it will also, for the reasons described above, call for a further redistribution of inherited wealth, and an equalisation of power and privilege within industry. These four central distance factors are discussed in this order in the succeeding chapters.

## XII

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### THE INFLUENCE OF EDUCATION

#### I *Limitations on Equal Opportunity*

THE school system in Britain remains the most divisive, unjust, and wasteful of all the aspects of social inequality. First, it denies even the limited aim of equal opportunity. Before the war, it did so to an extent which now seems almost fantastic, so that a high proportion of children had no access to secondary education of any kind. Of boys born between 1910 and 1929, only 14% of those from state elementary schools achieved a secondary education, compared with 89% of those from private primary schools. Taking the occupational status categories described in Chapter X, a boy from categories 1-3 had five times the chance of a grammar school education as a boy from categories 6-7 (and thirteen times the chance of reaching a University) – and this without reference to boys educated at independent schools.<sup>1</sup> Part of the cause of this deplorable situation was directly economic – even when a working-class child did win a free grammar school place, his parents often could not afford to take it up. But mainly it was due to governmental apathy and meanness.

The 1944 Education Act set out to make secondary education universal; and formally it has done so. Yet opportunities for advancement are still not equal.

First, the intention was, since it was recognised that the grammar schools would retain their superior quality and hence

<sup>1</sup> v. Glass, *op. cit.*, Ch. V.

their differential advantage as an avenue to the better occupations, to throw open this advantage, by abolishing fees and standardising entry procedures, to all social classes on equal terms. This aim has not yet been fully realised. The class distribution of the grammar school population is still markedly askew. An investigation in 1951 showed that the middle class was still heavily over-represented:<sup>1</sup> the upper working class, with one-third of grammar school places, now reasonably well represented: but the lower working class, with only 15% of places, still heavily under-represented.<sup>2</sup> And not only do proportionately more middle class children enter the grammar schools, but once there they do much better. Children from professional and managerial families account for 15% of the total population, 25% of the grammar school population, and 44% of the sixth-form population. 'From the children of [such] parents at one extreme to the children of unskilled workers at the other there is a steady and marked decline in performance at the grammar school, in the length of school life, and in academic promise at the time of leaving.'<sup>3</sup>

These contrasts are much larger than can be explained on genetic grounds. No doubt the proportion of high-I.Q. children is greater amongst the middle class than amongst the working class; but given the far higher absolute numbers of the latter, one would still expect them to show significantly better results than they do. The explanation must be looked for partly in social influences – the less educated parents, the more crowded (and noisy) homes, the smaller opportunities for extra-curricular learning, of working-class children: and partly in financial factors – a child continuing at school is still a heavy financial strain on working-class parents, and one which could at least be mitigated, and early leaving thus discouraged, by more generous maintenance payments and an extension of family allowances. But, for the present, equal opportunity is subject to definite limitations.<sup>4</sup>

But the question of grammar school places is relevant only

<sup>1</sup> That is, over-represented from the point of view of equality and justice – not necessarily, as things now are, from the point of view of efficiency.

<sup>2</sup> v. A. H. Halsey and L. Gardner, 'Social mobility and achievement in four grammar schools', *Brit. J. Sociology*, March 1953.

<sup>3</sup> *Early Leaving* (H.M.S.O., 1954).

<sup>4</sup> This is quite apart from the notorious inequalities of opportunity deriving from the unequal geographical distribution of grammar school places.

## THE SEARCH FOR EQUALITY

to the above-average child. Matters are much worse when we turn to the average child. The least we can ask for is that all ordinary children, irrespective of social background, should enjoy a good primary and secondary education in decent buildings, with classes of reasonable size, and up to a reasonable age. This the children of better-off parents enjoy in the independent schools. But many working-class children, owing to the appallingly low quality of parts of the State educational system, are still enjoying nothing of the sort.

The handicap arises mainly from overcrowding and bad buildings. The deficiencies on these two counts are by now notorious. The Select Committee on Estimates wrote in 1953 that 'at every point they were confronted with overcrowding, lack of schools, a shortage of teachers, and often rapidly deteriorating and even dangerous school buildings. . . . The condition into which many of the older schools in the country have fallen is the worst feature. Some of them are no better than slums.'<sup>1</sup> No doubt matters are gradually – though very gradually – improving; and the situation will be greatly eased when the population 'bulge' has finally left the schools in the early 1960s.

But one cannot speak of even an approach to equal opportunity until the average size of class in State schools has been substantially reduced: the 'all-age' schools, which still deny a proper secondary education to over 700,000 children, have been re-organised: the black-listed slum schools have been closed down: the many structurally sound but grimly forbidding Victorian Gothic schools in industrial towns have been improved: the school-leaving age raised: and County Colleges opened as envisaged in the 1944 Act. This is, of course, simply a matter of money and resources, on which something is said later in the chapter.

### II *The Need for Reform of the Public Schools*

But even when these improvements have been made, we shall still not have equality of opportunity so long as we maintain a system of superior private schools, open to the wealthier classes, but out of reach of poorer children however talented and deserv-

<sup>1</sup> *Eighth Report from the Select Committee on Estimates (Session 1952-3)*, pp. vii and ix. Cf. also Peggy Jay, *Better Schools Now!* (Turnstile Press, 1953.)

ing. This is much the most flagrant inequality of opportunity, as it is cause of class inequality generally, in our educational system; and I have never been able to understand why socialists have been so obsessed with the question of the grammar schools, and so indifferent to the much more glaring injustice of the independent schools.<sup>1</sup>

That these schools are superior, and notably the 'public schools',<sup>2</sup> is beyond dispute. As compared even with grammar schools, let alone most secondary modern schools, their staffing ratio is higher, the academic quality (and often the devotion to teaching) of the staff superior, their surroundings more agreeable, their extra-curricular facilities more ample, and (most important for good teaching) their holidays longer. It is sometimes said that these advantages are confined to some thirty or so of the major public schools, and that the remainder are in no way educationally superior to good grammar schools. I doubt this (except for a tiny handful of famous grammar schools). But even if it were true, the minor public schools would still confer a crucial *social* advantage, namely, better prospects of a high-paid or high-status job. This advantage is attributable partly to the widespread belief (whether well-founded or not is irrelevant) that public school products are more dependable and self-reliant: partly to the still important though intangible factor of the right accent, bearing, and manners: and partly to the fact that persons now in authority, and responsible for selecting and promoting, have commonly themselves been to public schools, and so have a natural bias. This bias may often be unconscious (though loyalty to the old school is by no means defunct); but it is none the less real for that. The consequence is that boys even from minor public schools have significantly better occupational prospects at any given level of educational attainment; and the attachment of parents to these schools is not just irrational 'snob' prejudice.

Granted that this is an obvious injustice, what is to be done about it? There are three possible courses of action. First, the State might proscribe private education altogether, on the

<sup>1</sup> *Challenge to Britain* contained no proposal whatever for altering the present system. There have been a very few exceptions to the general indifference (cf. H. D. Hughes, *A Socialist Education Policy*, Fabian Society, 1955).

<sup>2</sup> By which is meant here the independent boarding schools, and not the entire membership of the Headmasters' Conference. Foreign readers should note the quaint solecism whereby public schools mean exclusive private schools.



grounds that the purchase by wealthy citizens of so overwhelming a social advantage is clearly inequitable. This is not the right solution. It is out of tune with the temper of the country, and is therefore not likely in any event to be politically practicable. It is not sensible to stifle all private educational experiment; this may be sometimes crankish, but at other times is genuinely progressive. And a flat proscription is undesirable on libertarian grounds. Once incomes have been distributed as the government of the day thinks fit, it is generally right, save in war-time or post-war periods of national crisis, that citizens should be left free to spend them as they wish, provided only that no nuisance is caused to others. And the interference with private liberty would be intolerable; the closing of all independent schools would naturally encourage a strong demand both for private tutors and places in schools abroad; and the resulting inequalities would compel the extension of the ban to these facilities also.

The second approach is the sanguine one. Some optimists expect the public schools to wither quietly away as redistribution bites further into the higher incomes, and as the State schools improve their standards. This is excessively hopeful. Whatever happens in the State system, the independent boarding schools will long retain a real advantage in educational standards, social prestige, and job prospects; and recent years have shown that middle-class parents are prepared to make very substantial sacrifices to obtain this advantage for their children. Moreover our tax system permits fees to be paid in many other ways than out of current taxed income – not only out of capital, or tax-free capital gains, but by tax-free covenants taken out by relatives, or insurance policies taken out at birth. The next Labour Government might alter matters somewhat. But all the public schools now have long waiting-lists; and in the light of middle-class parental psychology, I can see little sign that they are likely to be starved out by penury.

A drift away from the private preparatory schools is rather more likely. These offer, on the average, a lesser relative educational advantage; in the nature of things they have little influence on ultimate job-selection; and although some of them are appalling breeding-grounds of snobbery, they carry less social prestige than the public schools. It is therefore quite possible that middle-class parents might gradually desert them as standards in the

primary schools improve.<sup>1</sup> This would be wholly desirable. The educational loss would be infinitesimal, if indeed positive at all; and a pronounced social gain from mixing the classes would result. But in England at least no change at the primary level can ever be wholly decisive, either for class attitudes or the diffusion of opportunities; and the problem of the public schools remains.

The third and most sensible approach is to work for a gradual integration of these schools into the State system of education. This is no more than a reversion to the proposals of the Fleming Committee, which, recognising even in 1944 the injustice of the present system, recommended that the independent schools should initially offer 25% of their places to non-fee-paying pupils from State elementary schools, the proportion to rise stage by stage 'with a view to the progressive application of the principle that schools should be equally accessible to all pupils and that no child otherwise qualified shall be excluded solely owing to lack of means'.<sup>2</sup>

Unfortunately this recommendation was not implemented after the war. In some areas no attempt whatever was made to follow it up, in others local authorities compromised with a much lower figure than 25%. The reasons for this failure are well known. Local authorities, naturally reluctant at a time of rapidly rising rates to incur the heavy additional fee expenditure involved, always disliked the scheme. Many parents of working-class children were also hostile; and indeed it is far from clear that the social and psychological effects of applying the proposal on a very small scale are at all desirable – the 'guinea-pig' children will either be unhappy, or become *déclassé*; and in any case the effects on the social structure would be infinitesimal. And both the grammar schools and Labour educationalists were naturally unfriendly to the removal of the best pupils from the State system in order to bolster up the private sector.

But this is quite a different matter from applying the scheme on a really large scale; and the next Labour Government must simply choose between sending no State-aided pupils to the public schools at all, which would be a public confession that it had lost

<sup>1</sup> Although a condition of this occurring might be a change in the Common Entrance examination; this is now attuned to the syllabus of the private preparatory schools, which is different in many respects from that of the State primary schools.

<sup>2</sup> *The Public Schools and the General Educational System* (H.M.S.O., 1944), pp. 65-6.

interest in socialism and equality;<sup>1</sup> and sending a really large number. Clearly it must do the latter, and announce that its policy requires the grant by the public schools initially of 25% 'free' places, rising rapidly to 50%, and later to at least 75%; the ultimate objective being 100% competitive entry, regardless of whether the children had previously been to State or private schools.<sup>2</sup> The corollary would be financial assistance, and public representation on governing bodies.

Would this raise insoluble social and educational difficulties?<sup>3</sup> So far as the public schools themselves are concerned, the answer is surely no. We already have a large number of 'direct grant' schools, including some of the most famous grammar schools, operating a 25% or 50% 'free place' system with great success. They find neither that the publicly-appointed governors make an interfering nuisance of themselves: nor that selection by an external test gives worse results than the school's own internal methods of selection: nor that social divergences arise between aided and fee-paying pupils. No doubt in major public schools, where the latter are drawn from a narrower social class, such divergences would be more obvious. But then half the object of the scheme is to present social contrasts under a single roof, in order ultimately to narrow them.

Unlike the limited post-1945 experiment, this reform must in the last resort be the responsibility, both financial and administrative, of the central government. Otherwise the local authorities, with an eye on their rates and fearing the extra cost, will simply decline to co-operate (or else select only their problem children).

Could such a reform be carried through voluntarily? It is always better to act by agreement if this is at all possible. Although the public schools are not now under any great financial strain, many headmasters, and notably those from the better and more famous schools, have a distinctly bad conscience about their

<sup>1</sup> Incredibly enough, the Labour Party made this confession at the last election – unless some stray pieces of nationalisation were thought to be a substitute for reforming the strongest remaining bastion of class privilege.

<sup>2</sup> The allotted places need not all be completely free; payment could (and should) be assessed according to a graduated income scale of the kind already applied to State university awards.

<sup>3</sup> For an excellent discussion of some of the problems involved, *v. Hughes*, *op. cit.* One obvious problem would be the age of entry, since the break between primary and secondary education is now 11 in the State sector and 13 in the private sector; some adjustment would be necessary here.

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present methods of selection; and they might be inclined to co-operate. It would certainly be worth while to make a bid for an agreed scheme first; and if a majority of the public schools came in, this might be sufficient. But if a majority declined, the community must then assert its right to deal with what is a flagrant restriction on equality of opportunity.

By this solution the public schools, while retaining their distinctive character, teaching cadres, and genuine educational assets, would steadily grow more socially heterogeneous; and they would cease to cause that interaction between parental status, educational opportunity, and filial status which now creates such social 'inertia', and restricts the upward movement from below. No doubt middle-class children would remain for some time over-represented, as they are in the grammar schools, by virtue of genetic or environmental advantages. But the over-representation would at least be based on genuine differences in intelligence, and not on the adventitious possession of private means; and in any event it would be much less marked than now.

### III *The Case against an Élite School System*

We should then have an educational system which was exceptionally just and fair, in the limited sense of offering equal opportunities regardless, so far as this is ever possible, of birth or wealth; and exceptionally efficient in that the ablest pupils would be creamed off and given a superior training. We should largely have attained the goal of the equal-opportunity society.

But I argued in Chapter X that this was not a sufficient goal for socialists in Britain. Equal opportunities for self-advancement, superimposed on a segregated educational system, would still leave too wide a gap between the new élite and the average citizen. Of course the gap would be less, owing to the freer vertical movement, than under the present system; and the selection for the élite more just. And of course some degree of educational 'éliteness', resting on the Universities, the sixth forms, or simply the fact of staying at school until 18, is inevitable. But here the prestige-gulf between the public schools and the rest would still be such as to create an élite much too detached from the point of

view either of social justice, or contentment, or democracy.<sup>1</sup> We can find supporting evidence for this view in the post-war experience of providing equal opportunities even within a segregated *State* system of education.

The implementation (though it is not clear that it was the intention) of the 1944 Act was in terms of a tripartite secondary school system – grammar, secondary modern and technical – the three streams being divided out by a selection at 11+. Although there was supposed to be ‘parity of esteem’ between the three types of school, it was recognised that the grammar schools would long retain their superiority; and the 11+ examination, combined with the abolition of grammar school fees, was intended to provide an equal opportunity for all children to enjoy this superior advantage.

It was precisely because the advantage was so superior that the 11+ examination assumed such overwhelming importance, both objectively and subjectively, in the years following the war. Not only did the grammar school often start with a long-standing prestige, while the secondary modern started with none; not only did it offer an immensely superior education at a time when the secondary modern school was being improvised, usually from scratch, and in wholly unsuitable buildings: but it also represented the main, if not the only, avenue to well-paid, non-manual, high-status occupations. This reflects the fact that as the small man and the self-employed give way to the large-scale managerial structure, and as technical proficiency becomes increasingly essential, educational qualifications (which in this context mean a grammar school background) become more and more the indispensable condition of rising in the social scale.

We have here a microcosm of what a national élite system of education, based on competitive entry, might look like. One thing cannot be doubted, that it would be exceedingly unpopular. The 11+ examination came to be bitterly disliked and resented. It was thought that a child’s whole future was decided on a single day’s test.<sup>2</sup> No doubt much of the dislike was based on ignorance or exaggeration. The results were in fact never decided on a single day’s test. Immense care was commonly taken over

<sup>1</sup> *z.* Chapter X, Section V.

<sup>2</sup> The middle and upper classes, if they have girls of University age, are now gaining an inkling of what the 11+ examination is like from the extremely competitive conditions of entry into women’s colleges at Oxford and Cambridge.

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borderline cases. There was always provision (though often imperfect) for re-testing and transferring 'late developers'. And the better secondary modern schools began increasingly to provide advanced courses and thus a route to the higher occupations.

But there was quite sufficient truth in these intuitive fears to give them a genuine validity. Nor were they assuaged by the seeming justice of the process of selection – indeed this may, as I suggested in Chapter X, actually have exacerbated the resentments. At any rate the depth of these fears and subsequent resentments, and the intense mental and nervous strain imposed on parents and children alike by the knowledge of what was at stake, strongly underline the argument of that chapter that equal opportunity, if combined with marked educational and social disparities, will not create a society which is contented and deemed to be just.

There are also, of course, strong practical objections to segregation at 11. It is conceded that mistakes in selection are inevitable, and indeed occur on a wide scale.<sup>1</sup> The question is whether any practicable provision for later transfer can adequately correct them, given the upheaval involved in changing schools, the social disgrace for children who are graded downwards, and the pressure on overworked headmasters and Education Officers. Nor is it clear that there is any logic in this particular tripartite division – that there are in fact three clearly-marked types of child, which can be neatly sorted and labelled in this way: or even if there were, that the numbers in each could be accurately pre-determined, as they must be if separate schools are to be built for them. The whole business has a distinctly arbitrary air.

If we add to these drawbacks, inherent in the segregation of grammar school children, the parallel drawbacks which would attach to a still further selection for free places in the public schools; and if in addition to the practical drawbacks we consider the divisive and stratifying effect, wholly unknown in most other advanced countries, of educational segregation at widely varying levels of social prestige and advantage, then we must surely incline, as socialists, towards a 'comprehensive' system of education, under which all children would ideally share the same broad

<sup>1</sup> How fallible the selection process is can be judged by the fact that 24% of the grammar school population leave at 15, and only 17% avail themselves of the hard-won opportunity of staying until 18. (*v. Early Leaving.*)

experience at least up to the official school-leaving age. Indeed if the argument of previous chapters is accepted, this would seem, if we had a free choice in the matter, a condition of creating an equal and 'classless' society.

#### IV *Comprehensive Schools in Principle*

In fact we do not have a completely free choice, since we inherit an elaborate non-comprehensive school structure, which cannot be forcibly dismantled. For this and other reasons to be discussed in Section VI, the Labour Party could never impose a comprehensive system rapidly on the entire country. Nevertheless we have some choice in the matter; and we must therefore consider the arguments commonly brought against comprehensive secondary education.

The most forceful opposition spokesman has been Dr. (now Sir) Eric James.<sup>1</sup> He bases his case on a passionate belief in the importance of 'leadership' – an importance greater than ever now that the range of social problems has become so wide and complex. The nurture of potential leaders, he argues, must be the first concern of the educational system; this requires their segregation into separate schools; and any egalitarian sentiment must give way to this over-riding aim.

No reasonable person would deny that leadership is important. But general statements do not advance matters very far. For instance, how wide a gap in status is required between the leadership élite and the rest of the community? How do we weigh the need for leadership against other social 'goods', such as democracy, or equality, or group participation? And, more fundamentally, can we so precisely delineate the qualities needed for leadership that we could, even if we so wished, build our entire educational structure round them?

Dr. James lists these qualities as high intelligence, an intensive academic education, integrity, courage, judgment, stability, tact, and perseverance.<sup>2</sup> But some of the most effective leaders in history have been illiterate, academically moronic, dishonest,

<sup>1</sup> *v. Education and Leadership* (Harrap, 1951).

<sup>2</sup> The qualities, evidently, of a successful headmaster.

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unstable, neurotic, if not actually insane or epileptic. Even if we exclude 'bad' leaders and confine ourselves to 'good' ones, we still find a great many of the latter, indeed probably a majority, who have had no intensive academic education (and still more who have had no tact). In fact the above is just a list of 'optimum' leadership qualities so vague and general that almost anything can be read into it.

All we can say about leadership is that as an absolute concept it has little or no meaning. The quality of leadership is specific to particular situations; 'what makes for good leadership in one situation may actually militate against it in another';<sup>1</sup> and group psychology has not advanced to the point where we can be sure of how to elicit the leadership qualities required by different situations.

However, we have to make common-sense judgments; and surely all the evidence is against the view that the type of leadership required to-day is likely to be the type encouraged by an élite system of education. No doubt Plato and Arnold were all very well in their day; but it would be distinctly odd if educational systems adapted in the one case to an idealised oligarchy of philosopher-kings, and in the other to the needs of a far-flung British Empire, were equally well adapted to a democratic, egalitarian, mid-twentieth-century society.

Most people would, I suppose, agree that leadership to-day called for three attributes, apart from a list of desirable moral qualities: it must be characterised by good judgment in public affairs, it must be technically efficient, and it must be democratic. The first attribute, more than ever necessary by reason of the growing scope and complexity of public action so rightly stressed by Dr. James, does not obviously demand an intensive academic education. It requires a measure (no more) of brains and intelligence, a 'feel' for situations, a sense of the possible, great psychological intuition, and a knowledge of public affairs. It does not require exceptional academic attainments, as anyone who has been both in academic life and politics well knows, nor, so far as one can see, a special, separate education; indeed if anything one would suppose the opposite, both *a priori* and judging by the

<sup>1</sup> J. A. C. Brown, *The Social Psychology of Industry* (Penguin Books, 1954), p. 221. The whole of Dr. Brown's chapter on 'Leaders and Leadership' is highly relevant to this issue.



lack of this practical wisdom amongst so many contemporary intellectuals.

On the question of technically efficient leadership, there is often a misunderstanding. It is sometimes said that the selective education of the most talented children is essential to Britain's survival in a competitive and technical world. But what this survival calls for is simply a great deal more expenditure on research, applied science, technical colleges, and so on; and this does not require segregated secondary schools of the type suggested, as the example of the U.S. clearly shows. And there is a more general confusion here. Where Britain lags behind the U.S. is not in the calibre of the top academic or 'grammar school' section of the population, but in the *average* technical ability lower down the scale. From this point of view we positively need less concentration on an educational élite, and more on the average standard of attainment. It is here that Britain is always weakest; and America gains competitively far more from having eight times the proportionate number of students in (often second-class) Universities, than Britain gains from having public schools and grammar schools.

Lastly, the democratic quality of leadership. Dr. James argues that segregation along Platonic lines represents a 'profoundly democratic conception', since it provides equal opportunity without regard to birth or wealth.<sup>1</sup> Certainly this is more democratic than segregation without equal opportunity, such as we have at present. But this is scarcely the relevant comparison; and one cannot reasonably maintain that any system of segregating a particular group of children, however chosen, into superior schools offering superior prospects, is more democratic than a system in which all children share broadly the same education. And whichever is the more democratic conception, the latter is surely more likely to foster democratic attitudes.

We cannot, I think, yet be at all sure what system of education is most likely to generate the type of leadership which we require; indeed it is not altogether clear, in our rapidly changing society,

<sup>1</sup> *op. cit.*, p. 31. But so far as Plato himself is concerned, most people would prefer Mr. Crossman's judgment. 'Plato's philosophy is the most savage and the most profound attack upon Liberal ideas which history can show. It denies every axiom of "progressive" thought and challenges all its fondest ideals. Equality, freedom, self-government – all are condemned as illusions which can only be held by idealists whose sympathies are stronger than their sense.' (R. H. S. Crossman, *Plato To-day*, Allen and Unwin, 1937, p. 132.)

what type of leadership we do require. But *prima facie* judgments, and a consideration of the experience of other countries, certainly do not point unequivocally to a Platonic élite.

One may be allowed to ignore other arguments, allegedly of principle but in fact rather emotional, such as that to object to an 'aristocracy of learning' is to display 'social prejudice', or a bias in favour of mediocrity, or 'a purely political' attitude, or an indifference to the needs of individual children and hence to the requirements of the community.<sup>1</sup> We may assume that neither set of protagonists is more prejudiced, political or callous than the other; but that they simply differ on how various values are to be weighed, how the community can best be organised, and how the needs of children *as a whole* can best be met. Nothing is to be gained by the use of prejudicial language.

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### v *Comprehensive Schools in Practice*

But many people still object to the idea of comprehensive schools, not necessarily on grounds of principle, but simply because they fear the results may be bad in practice. The most common fears are, generally, that standards will be lowered, and the clever child held back to the pace of the average child: and specifically that if the school is to cater adequately for advanced and sixth-form study, it must be vast in size – Dr. James mentions a figure of 5,000 – and so sacrifice any intimate, personal quality, and all chance that the headmaster will know all his pupils personally.

These are matters to be determined factually; and in this country, with (at the time of writing) only some 14 comprehensive schools as yet in being, there is naturally no conclusive evidence. But a careful study of the experiments to date affords at least

<sup>1</sup> James, *op. cit.*, p. 44. It seems hard that socialists should have to bear the entire brunt of this disapproval, since many highly respectable non-socialists have also objected to an aristocracy of learning. Even so impeccably-constituted a body as the Fleming Committee regarded 'any segregation of the particularly gifted children of the country as altogether unfortunate. . . . If a school is to be a true community, it must contain children of varying intellectual qualities. . . . Any attempt to make use of the Schemes which we propose in order to segregate the abler children and to send them to boarding schools would be socially and educationally wrong.' They therefore rejected 'without hesitation' any idea of a competitive examination for the free public school places (p. 71).

preliminary evidence; and this does not bear out the fears expressed.<sup>1</sup> There is no sign of any levelling-down of standards, and some evidence even of the reverse. The main reason is that the comprehensive schools have not, as many feared (and some hoped) that they would, mixed children of different abilities in the same class, but have adopted a system of testing and differentiation designed to produce homogeneous classes of more or less similar standards of attainment.

This has shocked some comprehensive enthusiasts, who had hoped for a system of 'social promotion' on the American model, with virtually no grading by ability.<sup>2</sup> But both common sense and American experience suggest that this would lead to a really serious levelling-down of standards, and a quite excessive handicap to the clever child. Division into streams, according to ability, remains essential.

This does not mean, as some critics suggest, that the whole experiment is then a waste of time, since this selection by ability will reproduce all the evils alleged against the 11+ examination. This is to get the matter out of perspective. The object of having comprehensive schools is not to abolish all competition and all envy, which might be rather a hopeless task, but to avoid the extreme social division caused by physical segregation into schools of widely divergent status, and the extreme social resentment caused by failure to win a grammar (or, in future, public) school place, when this is thought to be the only avenue to a 'middle-class' occupation. That division and that resentment bear no relation whatever to the effects of grading *within* a single school, with the possibility of re-grading at any time simply by moving across a corridor. One has only to think of the present public schools, where it could hardly be maintained that the divisions and resentments created by failure to get into the sixth-form, or to become a prefect, are in any way comparable with those caused by failure to win a grammar school place.

So far as the sixth-form argument is concerned, the evidence is necessarily inconclusive. It is not true that all comprehensive schools will in fact be vast; most of those now projected are for

<sup>1</sup> v. Robin Pedley, *Comprehensive Schools To-day* (Councils and Education Press, 1955).

<sup>2</sup> Some of them, their heads perhaps a little turned by too much sociology, even insist on classes being known not by numbers, but by the teachers' names, lest any mark at all of superior or inferior status be conferred. This is simply egalitarianism run mad.

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well below 1,500 pupils, and some for only 500-600. Even supposing the average size to be 1,000, it is not clear to the layman, given a reasonable devolution, that this must be disastrous. Many public schools are of a comparable size; and most of their products whom I know had little personal contact with their headmaster, for which they now seem none the worse. At any rate, the existing comprehensive schools appear to provide for advanced work at least as adequately as do most grammar schools; and this is a criticism which so far, at least, must be regarded as non-proven.

Much of the argument against comprehensive schools proceeds by analogy. The critics point to the low standards characteristic of many American high schools. These low standards are not in dispute. But there are many possible explanations besides the comprehensive character of these schools: for example, the anti-highbrow and anti-academic ('anti-egghead') tradition of American life, the acute shortage of teachers (especially male teachers), the low quality of many of the teachers (amounting sometimes almost to illiteracy),<sup>1</sup> the insistence on automatic 'social promotion' by age-groups and the lack of grading by ability, an excessive attachment to Deweyism and 'life-adjustment' education at the expense of more basic academic disciplines, the overwhelming preference for vocational courses, and so on.<sup>2</sup> All or any of these influences, none of which are or need be reproduced in English comprehensive schools, may be responsible for the lower standards.

This is confirmed by the experience of Sweden, which has recently embarked on the experiment of replacing a tripartite by a comprehensive system of education. (Indeed the comprehensive schools are actually to embrace primary as well as secondary age-groups.) This experiment appears to be proceeding most successfully. The size of school varies from 200 in rural areas to 1,200 in Stockholm; and no one suggests that a much larger size is necessary to ensure an adequate grammar school stream. Educational standards have been maintained. There is no disagreeable status gap or resentment between the different streams.

<sup>1</sup> v. 'Can Our Teachers Read and Write?' *Harper's Magazine*, November 1954. Of course it is not intended to suggest that these low standards are universal; but the average teaching standard is certainly lower than in England.

<sup>2</sup> The range of subjects taught is often distinctly bizarre - from driver education and consumer buying at one end, to the study of 'boy and girl friendships', 'one's own personality', and 'plans for marriage' (for senior pupils only) at the other. I have taken these examples from an actual high school prospectus.

And all the major political parties are supporting the experiment. Taking Sweden and America together, it seems clear that the results of comprehensive education are not uniquely determined by the fact of 'comprehensiveness', but depend mainly on the cultural traditions of the country concerned.

And surely the analogy of the pre-war public schools is relevant. Many of them then bore a close resemblance to a comprehensive school. They were often extremely large – certainly too large for the head to know each individual boy. They taught all faculties – they had, that is to say, the equivalent of grammar, secondary modern and technical streams. They took all intellectual levels, and not simply the top 15% or 25%; indeed with a few notable exceptions, such as Winchester, almost any child, unless an imbecile, could find a place. No doubt the average level of intelligence was higher, owing to the more favourable parental background; but the dispersion was probably not significantly less. Yet the educational results were excellent, even in lesser-known schools where no exceptional heredity factor was at work. It seems that many of the anti-comprehensive arguments are not consistent with a belief in the virtues of the mixed fee-paying public school.

## VI *A Labour Educational Policy*

Were we starting *tabula rasa*, I should therefore strongly favour a non-segregated, comprehensive system of schools, with other schools, not indeed abolished, but existing merely as an oblique appendage to the national system, as they do in most other countries, and not as a separate, nation-wide top stratum, as in England. The social arguments for this solution seem to me irresistible, the educational arguments against it inconclusive.

We are not, however, starting *tabula rasa*, but with segregated schools already established and strongly entrenched; and even if they were not, we could still not drive straight on to the objective, for the ground ahead is studded with obstacles – the shortage of suitable buildings, the state of public opinion, and the fact of local educational self-determination.

Thus even within the state sector there can be no question of suddenly closing down the grammar schools and converting the

secondary moderns into comprehensive schools. These latter require a quite exceptional calibre of headmaster, of which the supply is severely limited: a high-quality staff for sixth-form teaching – again a factor in limited supply: and buildings of an adequate scale and scope – and most secondary modern buildings, which would have to be converted, are quite unsuitable. Until and unless the proper supply conditions exist, it would be quite wrong to close down grammar schools of acknowledged academic quality. The result would simply be a decline in educational standards, and discredit on the whole experiment.

Not that this would be possible, in any event, so long as we have local autonomy in educational matters. Only a minority of education authorities at present favour a large-scale conversion to a comprehensive pattern; and no one proposes that the remainder should be coerced. It would, moreover, be absurd from a socialist point of view to close down the grammar schools, while leaving the public schools still holding their present commanding position. This would simply intensify the class cleavage by removing the middle tier which now spans the gulf between top and bottom. It is curious that socialists, so often blind to the question of the public schools, should fail to see that 'parity of esteem' within the State sector, combined with a continuation of independent schools outside, will actually increase the *disparity* of esteem in the system as a whole.<sup>1</sup>

What, then, can be done? First, a Labour Government should explicitly state a preference for the comprehensive principle, and should actively encourage local authorities – and such advice carries great weight – to be more audacious in experimenting with comprehensive schools in the light of the marked success, described in Dr. Pedley's survey, of the experiments to date.<sup>2</sup>

Secondly, where new comprehensive schools cannot or will not be built, the object must be to weaken to the greatest possible extent the significance of the 11+ examination, and the rigidity of the prestige and physical barriers inherent in the present tripartite stratification. This is partly a matter of money and

<sup>1</sup> At least until the esteem of the State sector is relatively much higher than it is to-day.

<sup>2</sup> But with the important proviso, in large cities which are divided into rather clearly-marked one-class neighbourhoods, that the catchment-areas are so drawn as to straddle neighbourhoods of different social standing.

resources. As new secondary modern and technical schools are built and staffing ratios improve, thus narrowing the gap in standards and general ambience, so the desperate, universal obsession with a grammar school place will weaken. It is partly a matter of facilitating later transfer, so that the 'last chance' atmosphere now attaching to the 11+ examination is dissipated. And it is partly a matter of severing the present direct and unique link between grammar school and superior occupation – by creating 'grammar school streams' in secondary modern schools, encouraging the taking of subjects in General Certificate, instituting 'special courses' of a more advanced nature, facilitating late transfer into the sixth-form at grammar schools, and so on. But perhaps the most important step, directly in fostering 'parity of esteem', and indirectly in encouraging these other reforms, would be the raising of the school-leaving age to 16.

All this is to some extent a second-best. Late transfers from one school to another are not in general satisfactory; and considering the leeway to be made up, the secondary modern school will not easily achieve parity of esteem. But these changes will at least increasingly break up the present rigid, tripartite pattern – the more so as local authorities experiment with bilateral and other new types of secondary school. Diversification is at least one route towards equality.

But we still face the problem of the independent schools. One important change for the better, as I suggested earlier, may be the gradual closure, as we achieve more equality of wealth, of private preparatory schools, and the disappearance of one early and influential source of class insemination. In the independent secondary schools, the existence of 75% free places will of course weaken their present stratifying influence.

The problem is then twofold. First, these schools must not be allowed to become the breeding-ground of a new, superior intellectual élite. This requires that we carefully attend to the admonition of the Fleming Committee, that the free places in these schools should not go only to the cleverest children, but should be spread amongst a wide cross-section, with a preference, naturally enough, for those who want, or seem apt for, a boarding-school education. And in the long run it requires, in my view, that some of these schools should be converted to other educational uses – as high schools for advanced tuition, short-term

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boarding establishments, junior universities, adult education centres, and the like.

But a huge gap in social prestige will remain for many years to come. Closing this gap is simply a matter of standards in the State sector, and hence ultimately of priorities in national expenditure. It is true that an air of unreality, even of absurdity, now attaches to this statement. This is because it has so often been made in the last few years, especially in perorations, where it was always sure of a round of applause; but nothing has ever been done to implement it. Only if performance really matches promise – only if, that is, the Labour Party gives education a much higher priority than in the past, and comes to see it as of far greater significance to socialism than the nationalisation of meat-procuring or even chemicals – only then will the reality take shape in the form of bricks and mortar, more and better teachers, a longer school life in ample, imaginative surroundings.

Gradually, the schools which children go to will become, as in the United States, not an automatic function of brains or class location, but a matter of personal preference and local accident. The system will increasingly, if the Labour Party does its job, be built around the comprehensive school. But even in the large non-comprehensive sector, all schools will more and more be socially mixed; all will provide routes to the Universities and to every type of occupation, from the highest to the lowest; and it will cease to occur to employers to ask what school job-applicants have been to. Then, very slowly, Britain may cease to be the most class-ridden country in the world.



## XIII

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### THE PATTERN OF CONSUMPTION

#### I *Rising Average Income and the Pattern of Consumption*

THE second influence on social equality is 'style of life' and the visible pattern of consumption: that is, how wide are the contrasts, both in fact and in terms of how people feel, between the style and standard of living of different social groups.

Naturally this depends partly on the distribution of total real income. But it also depends on the distribution of certain especially conspicuous and significant items of consumption; and this need not vary directly with total income. One aspect of this, to which attention was drawn in Part Three, is the consumption of 'social' goods such as health and education. Equality here, whatever the distribution of total income, can have a marked effect on social attitudes and the general sense of class equality.

But this chapter is concerned with the pattern of personal consumption, and with the proposition, which has important implications for Labour Party attitudes, that *seen and felt disparities in personal living standards are a function not only of income-distribution, but also of the absolute level of average real income*. That is, the higher the level of average income, the more equal is the visible pattern of consumption, and the stronger the subjective feeling of equal living standards. This arises from the fact that some forms of consumption are more conspicuous and socially significant than others, and that the richer a country grows, the more equal the distribution of these particular forms of consumption becomes, almost regardless of the distribution of total income.

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In a poor and backward country, such as contemporary Egypt or Persia, the unequal distribution of wealth is glaringly exposed to the public gaze by the fact that the rich alone have any 'discretionary purchasing power', i.e. surplus of income over subsistence requirements. They alone, therefore, can afford whatever luxuries are conventionally considered the prestige-symbols of a high standard of living – good housing, high quality clothes, excellent food and drink, cars, holidays, travel, restaurant meals, TV sets, and the like. The fact, conspicuous to all, that only a few rich can afford such expenditures, while the masses live at a bare subsistence level, induces an overwhelming sense of inequalities in style of life.

But as the national income rises, these 'luxuries' come increasingly within the reach of the masses, until in contemporary America, to take the extreme example, a high proportion of the population enjoys many of the 'luxuries' which until recently were considered the prerogative of the rich;<sup>1</sup> and the ordinary worker lives at what even two decades ago would have been considered in Britain a middle-class standard of life.

But why should this equalise the pattern of consumption? Why, with any given income distribution, should not the rich move on a further step, and maintain the gap between themselves and the masses by branching out into new and equally conspicuous forms of luxury expenditure, which would be just as much a symbol of wealth and social superiority as the old? One might expect each generation, as incomes rose, to develop its own pattern of ostentatious sumptuary expenditure, so that visible contrasts in living standards always remained the same.

The rich cannot, evidently, maintain their lead merely by consuming quantitatively more of existing goods. At some point they must come up against an effective frontier of consumption, set by the law of diminishing marginal utility. It is well known that as incomes rise, the proportion spent on staple foodstuffs falls; and even the biggest glutton soon reaches a point where additional quantities of food hold no attraction. The same relative decline can, after a point, be observed in respect of tobacco, alcohol, and fuel for heat and light.

<sup>1</sup> Or could enjoy if it so wished. In one particularly conspicuous case, housing, it does not always so wish; and the shiny car outside the shack is a familiar sight to the traveller. But the reason for bad housing is not solely economic; it lies partly in the (to an Englishman) peculiar contours of the American consumer's preference map.

But even more luxurious articles also have a limit. The *Tailor and Cutter* asserts that the well-dressed man-about-town needs 30 suits; and although this sets the physical frontier further back than most of us would have supposed, it does at least concede that some satiation point exists. A very rich man may want two, or even three, country-houses or large mansions; but he does not want 10 or 20, or even indefinitely larger ones. He may want two, or even three, Rolls-Royces; but again he does not want 10 or 20, or indefinitely larger ones. He may want to spend six months, or more, of the year at Cannes; but he cannot in the nature of things spend more than 12. He therefore finds it increasingly hard to maintain his lead simply by consuming greater quantities of existing goods and services.

But why cannot he maintain it by extending the number of goods which he consumes – by finding new forms of consumption to symbolise his superior wealth? The answer lies in the inherent nature of the modern mass-distribution economy, which will, I believe, after a certain stage of development, make it almost impossible to preserve large disparities in socially conspicuous consumption.

In a pre-industrial society, the possibility of extending the number of goods consumed scarcely exists; it is ruled out by the slow rate of technical innovation. But then the necessity for doing so hardly arises either; the incomes of the poor are static, and the superior living standards of the rich are not being challenged from below.

It is the Industrial Revolution, and the higher rate of innovation associated with it, which both poses the problem for the rich, and ultimately makes its solution impossible. Initially, it is true, although it jerks up the living standards of the masses and so shatters the long-standing consumption relationships between rich and poor, it also enables the rich to keep ahead by the purchase of new luxury goods. For a long time, in the early or middle industrial era, while mass production is still the exception yet the rate of technical innovation is high, the rich can acquire conspicuous new inventions which the masses cannot afford, even though their basic standard of living may be rising. This is the pre-mass-production era, when the rate of new invention has outstripped the techniques of widespread engineering application.

## THE PATTERN OF CONSUMPTION

But this, although prolonged, eventually proves a transitory phase. When the Industrial Revolution finally matures into the modern mass-production economy, as it has in the United States and is about to do in Britain, the rich can no longer hold their lead in this manner. This is not because the rate of innovation and production of new goods slows down – on the contrary, it accelerates still further. But it is now outstripped by an even more rapid progress in engineering application, and in the development of productive techniques. The time-lag between invention and widespread application has steadily shortened from 100 years in the case of the steam engine to five years, or even less, to-day;<sup>1</sup> and it gradually becomes possible to mass-produce, at comparatively low cost, almost any conspicuous new invention.

This development coincides with a change on the side of consumption. Not only is it reflected in a rapid rise in incomes due to the rising productivity, but the masses, having by now satisfied their basic wants, are ready to branch out into luxury expenditure. They therefore provide a ready market for the new goods, and so are always stepping on the heels of the rich. And the trend is further reinforced by the development of consumer credit and instalment buying, which enables the working class to buy more goods than their financial assets unaided would permit. Consumer credit in the U.S.A. (excluding house mortgage loans) now totals over \$30 billions, having grown (in money terms) by 500% since 1939; between 50% and 70% of sales of all consumer durables – two-thirds, for example, of all car sales (new and used) – are financed by credit.

It is thus a basic characteristic of the mass-production, mass-distribution and mass-credit economy, towards which we are now moving, that the rich will never be able to maintain an extensive lead in the consumption of new prestige-goods for more than a comparatively short period. Of course this would not be true if conspicuous new goods came out in a torrential rush – then no doubt the masses would fall behind. But even with the highest imaginable rate of innovation, new goods of this character, distinctive enough to be fastened on as symbols of high consumption and not simply improvements or small gadgets, will only appear at spaced intervals; and mass distribution will then quickly follow. Whereas the motor-car remained a remote symbol

<sup>1</sup> v. Wassily Leontief, *Scientific American*, September 1952.

of wealth in Britain for forty years, it is hard to imagine any new article holding this position in America to-day for more than five; one has only to think of the spread of cars and refrigerators before the war, of TV sets and washing-machines since the war, and no doubt of drying-machines, electric dishwashers, garbage disposal units and air-conditioning plants in the next few years.

These economic influences are reinforced by familiar sociological pressures. The element of emulation and fashion-leadership, and the dependence of social status on the pattern of expenditure, have already been discussed in Chapter VIII. Naturally these are especially relevant in the case of any conspicuous or revolutionary-sounding new commodity; and social pressure therefore combines with high purchasing power to create a mass demand for such commodities as soon as they appear on the advertisement pages of the glossy magazines – or as soon as some of the neighbours are seen to own them. This ‘socialisation’ of consumption patterns may already be observed in this country on new housing estates, where TV aerials were for a time an obvious prestige-symbol.<sup>1</sup> And it helps to explain the amazingly rapid spread in America of any ‘fashionable’ new good – often more rapid than can be explained on cost and income grounds.<sup>2</sup>

## II *Rising Consumption as a Socialist Objective*

Since the rich will not be able to preserve their consumption lead through the exclusive possession of conspicuous new goods, they must find an outlet for their higher incomes mainly in a *qualitative* increase in the consumption of existing goods, i.e. by buying ever more splendid or expensive varieties. But this form of outlay, however lavish, has a much smaller significance for social evaluations of comparative living standards.

This is partly because much high-quality consumption has a

<sup>1</sup> For a general discussion of the socialisation of consumption, v. Riesman, *The Lonely Crowd*, *passim*. For its economic implications, v. George Katona, *Psychological Analysis of Economic Behaviour* (McGraw-Hill, 1951), pp. 109 seq., and James S. Duesenberry, *Income, Saving and the Theory of Consumer Behaviour* (Harvard, 1949), pp. 20-32 (though the latter’s sociology should be treated with some reserve).

<sup>2</sup> Thus Duesenberry found (*op. cit.*, p. 104) that washing-machines and refrigerators spread much more rapidly in the U.S. during the inter-war years than could possibly be explained by variations in price or income, or by autonomous changes in taste.

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domestic character; it is enjoyed in the privacy of the home, and as a badge of wealth or superior style it attracts too little public notice. Thus the rich will spend their higher incomes on buying Matisse or antique furniture, on entertainment, on jewellery for their wives, on expensive food and wines, on interior decoration, on acquiring books, or commissioning a fashionable portrait painter.

And even if these prodigal outlays do become known to the neighbourhood, they will inspire other people with little or no sense of inferiority. They come too low on the average person's scale of preferences ever to be accepted as critical symbols of a much superior (i.e. strongly desired and envied) standard of living. This can already be seen in the United States. For better or worse, the average American worker or bourgeois does envy a new car, a deep freeze, and a holiday in the sun, and feel poor and deprived if he cannot have them. But he does not much care for French Impressionists (except for some simpler ones in reproduction) or Louis XV furniture or fine old silver or vintage port. He therefore does not feel their absence (provided he can afford the car, the deep freeze and the holiday) to be a serious reflection on his social status or living standards, nor their presence in other houses a mark of an altogether superior style of life.<sup>1</sup>

To the extent, moreover, that refinements in quality do matter for social evaluations, they can, with modern techniques, be only too easily copied and so lose, not indeed their superior intrinsic value, but at least their 'snob' glamour for the average citizen. At the extreme, mass-produced 'antique' furniture and prints of old masters, of a quality which fully satisfies the mass of citizens, are now available to all who want them. Bourbon is almost as palatable as Scotch, South African as Spanish sherry, and tinned as fresh asparagus; even in Britain a Montague Burton suit is a (just) passable imitation of one from Huntsman, while in America,

<sup>1</sup> Despite the fact that he can observe these domestic luxuries more directly than ever before through the medium of the films, TV, and the glossy magazines. But this does not, I think, increase the amount of social envy, mainly for the reason given in the text, reinforced by the further fact that familiarity breeds a certain contempt. When they had no idea of what went on behind the curtain, the less well-off no doubt suspected it was something much to be envied and desired. But now they know it is only books and pictures and candles at dinner, they cannot see what all the fuss was about; there seems nothing here, to people owning a car and a deep freeze, which represents a distinctively higher standard of living. Thus the influence of the films and TV is partially to de-glamorise luxury consumption, and drain it of its pristine mystery and allure.

although a Cadillac costs very much more than a Chevrolet, the outward difference is only marginal (indeed to an Englishman hardly visible), and anyway next year's Chevrolet will look very much like this year's Cadillac.

Of course these marginal differences are immensely significant for small status gradations. But that is not the point at issue; and they certainly do not give rise to a sense of broad class divisions or wide disparities in living standards.

Thus the rich cannot, once this stage is reached, preserve a conspicuous consumption gap even if they desperately wish to. But there are, in any case, certain social pressures, characteristic of a mature industrial culture, which tend to mollify their desire to do so. First, from a mixture of social motives combined with the limitations just discussed, the very rich will often give up the struggle at a certain point, and limit the rise in consumption altogether. Instead they give huge sums to charity or education, preferring the 'psychic income' which comes from playing the role of benefactor; so we have the phenomenon of the trusts and foundations associated with the names of Nuffield, Rockefeller, Carnegie and Ford.

In addition, as was suggested in Chapter VIII, conspicuous consumption becomes positively unfashionable, and may even give way to conspicuous under-consumption.<sup>1</sup> This latter has always characterised a section of the European intelligentsia – the battered car, the tatty tweed jacket, the cult of beer and the cheap Italian restaurant. But it is now percolating into the ordinary middle and upper classes – certainly in England, and even in America.<sup>2</sup> Ostentation is becoming vulgar; rich men tend to disclaim their wealth; and a general modesty in consumption becomes the fashion. This naturally reinforces the trend towards equality in outward style of life.

This trend has now gone a long way in the United States. Every visitor is struck not only by the lack of glaring objective contrasts between the living standards of different social classes,

<sup>1</sup> c. Chapter VIII, Section IV.

<sup>2</sup> I recently visited a high school in Florida, where I was not surprised to find that 400 of the pupils had cars (nor even that 50 were married), but was definitely surprised to see a number of battered 25-year-old Fords amongst the shiny new cars: even more so to be told that the owners of the former held a much higher status (as measured by the exact criterion of number of dates per week) than the owners of the latter, who were considered rather ordinary and plebeian.

but also by the general *consciousness* of equal living standards – the feeling that everything is within reach, and nothing wholly unattainable. This is one of the basic causes of the greater social equality, and the absence of deep class feeling.<sup>1</sup>

The trend is now beginning to be apparent even in Britain. The percentage of working-class expenditure available for purposes other than food, housing, fuel, and light rose from 5% in 1904 to 30% in 1937–8, and must now be higher still. The average worker to-day possesses a substantial margin not only for the traditional working-class ‘luxuries’ – the average household in Britain spends about £110 a year on alcohol and tobacco,<sup>2</sup> and another £50 a year on gambling; it spends more on alcohol than on rents, rates, and water rates, and twice as much on tobacco as on heat and light – but also for relatively new ‘luxuries’, such as the cinema, newspapers and periodicals, and books. Every household in Britain contains on the average two people who go to the cinema once a week; *Picture Post*, *Illustrated*, *John Bull*, *Everybody’s*, *Woman*, and *Woman’s Own* have a combined circulation of more than 10 million (out of a total of under 15 million households); and every second household contains one member who borrows a book from a Public Library once a week.<sup>3</sup>

But these expenditures, although they represent an absolute rise in living standards, do not create much atmosphere of greater equality, since they are either not accepted as significant symbols of high consumption, or else they are traditional *working-class* luxuries. It is when we enter the field of middle-class luxuries, i.e. genuine prestige-symbols of high consumption, that the trend becomes significant. From 1949 to 1954 television licences multiplied tenfold, and at the present rate of increase a majority of households will own sets by 1960. The number of private cars on the road is now 4 million, and at the present rate of increase one household in four will own a car by 1957. (The first miners’ car rally was recently held in Yorkshire.) Half the population now leave home for at least a week’s annual holiday, of whom

<sup>1</sup> Of course the greater equality of consumption patterns as compared with 30 years ago is also due to the marked redistribution of income which has taken place. But this is probably a less important factor than the rise in the absolute level of average income.

<sup>2</sup> Though these two items have shown very divergent trends in real terms. *Per capita* consumption of tobacco is 2½ times as high as 50 years ago, of alcohol only half as high.

<sup>3</sup> Many of these facts are taken from T. R. Fyvel, *Socialist Commentary*, March 1955.



two-thirds go to the seaside, 2 million to holiday camps, and  $1\frac{1}{4}$  million (three times the pre-war figure) go abroad.<sup>1</sup>

I do not, of course, mean that the whole of the working class can now afford these luxuries – far from it. So far this is only a trend – we are still only at the threshold of the new era of abundance; and there are many workers on £7 or £8 a week, and even more social service beneficiaries, who are still acutely worried by the problem of subsistence. But the trend is now quite definite; and it is significant that even these poorer workers are themselves peering across the threshold; they have accepted the new standards as the social norm, and are already thinking of the day when they too will acquire these goods.

All this must have a profound effect on the psychology of the working class. Engels wrote as long ago as 1858 that it seemed ‘as if the English proletariat is actually assuming bourgeois characteristics to an ever-increasing degree; apparently this most bourgeois of all nations finally wishes to have a bourgeois aristocracy and a bourgeois proletariat besides the bourgeoisie itself’.<sup>2</sup> He would have been even more horrified could he have gone canvassing round new housing estates in 1955, or read the Gallup surveys of what class people think they belong to. There are clear political implications here for the Labour Party, which would be ill-advised to continue making a largely proletarian class appeal when a majority of the population is gradually attaining a middle-class standard of life, and distinct symptoms even of a middle-class psychology.<sup>3</sup>

But the immediate point at issue is the sociological significance of the spread of high consumption. It must weaken the sense, as of course it lessens the fact, of inferior or unequal standards of life, and of class inequality generally. Quite apart from its direct and obvious effects on economic welfare, therefore, about which something is said below, higher personal consumption must form part of any statement of the socialist goal on fundamental egalitarian grounds.

<sup>1</sup> Housing is still a notable exception to the egalitarian trend, though the disparities here, due partly to overcrowding and partly to the gradual decay of old rented houses, or at least the failure to renovate them, are almost as marked within the working class as between classes.

<sup>2</sup> Quoted in Rosenberg, *Democracy and Socialism*, p. 211.

<sup>3</sup> Though this process is still held back in Britain, as compared with newer societies, by the survival of a strong class-consciousness amongst the working class (c. Chapter IX).

III *Must this Create an Acquisitive Society?*

But one has only to say this, for a terrible outcry to be raised. It seems that this means accepting a Tory, or capitalist, or materialist, or even (worse still) an American, philosophy of life, or at any rate one that is somehow unethical and unsocialist. What appears to be meant is that the acceptance of the goal of higher material standards will at once require and encourage an accent on material gain, extreme individualism, and aggressive competition. It is therefore held to be inseparable from an acquisitive and antagonistic society, in which on the one hand social values of great importance – security, leisure, culture, stability, and so on – will be neglected; and on the other, personal character and social relationships will be coarsened and debased. Thus the pursuit of higher material standards inevitably involves the denial of the traditional socialist ideal of ‘the city of brotherly love’.

Generally, I have never been able to see why high consumption and brotherly love should be thought incompatible – why should not the brothers be affluent, and the love conducted under conditions of reasonable comfort? But in any case this whole criticism seems to rest on a misunderstanding. First, as was pointed out in Chapter V, the actual social results of competition depend entirely on the framework within which it is conducted. A century ago these results were deplorable, because the background was one of complete *laissez-faire*. But to-day competition takes place within a strict framework of legal and conventional rules designed to obviate adverse or ‘anti-social’ results. If these rules are thought to be inadequate, it lies wholly within the community’s power to make them tighter.

It might still be said that to aim at higher consumption, and hence at rapid economic growth, must encourage aggressive, competitive relationships which are socially or ethically undesirable even though society is protected against any direct adverse results. But there is certainly no sign that such relationships are being encouraged in Britain to-day. Previous chapters have already drawn attention to the apparently ineradicable instinct in industry towards co-operation, group solidarity, and teamwork, and have suggested that Britain to-day is probably the

least competitive nation in the world. Yet we are already achieving a rate of growth which, if maintained, will double the standard of living in twenty-five years.

Nor is there any sign that this pattern of behaviour is likely to change. There is no reason to believe that an acquisitive and individualistic pattern of behaviour is an essential condition of rapid growth, which on the contrary appears to be consistent with many different kinds of social relations and economic institutions. At the present time, rapid rates of growth are being achieved in countries with the most diverse institutions, sets of motives, national characters, patterns of ownership, degrees of equality, and so on – in Russia, Germany, Britain, and America. There seems nothing to justify the conclusion that because in the heyday of capitalism an aggressively individualistic and competitive society did display a rapid rate of growth, therefore it is the only one which can.

Indeed, the fact is that advances in productivity and technical innovation to-day do not come characteristically from people working competitively for individual profit, but from people working on a fixed salary in a large managerial structure; and not from cut-throat competition, but often from co-operation – between firms, between industry and government and the universities, between management and labour. And rapid expansion appears to be possible under any set of social conditions which permits the creation of a sufficiently wide technological base, a sufficient degree of scale, and an emphasis on research – provided these are backed by a high level of demand and an accepted ideology of growth. I therefore see no reason to accept the identification of a slow rate of growth with amiable sociability, and a rapid rate of growth with violent competition.

However, even though rising consumption does not require a highly competitive culture, it might still be attacked as likely to foster the self-regarding motive of personal material gain, as opposed to more altruistic motives. But I doubt whether the acceptance or rejection of the goal of higher consumption by politicians or intellectuals will make much difference to the average person's motives, which surely go too deep to be so easily changed. Of course the action of politicians can (within limits) *thwart* the motive of material gain, as by imposing heavy marginal rates of taxation. But this will not alter the motive itself, which

will continue to exist whether consumption rises rapidly or slowly. To achieve a basic change in motivation would require a much more elaborate change in our society; and this, as I argued in Chapter V,<sup>1</sup> we cannot see clearly how to achieve.

I therefore fail to see that to accept the virtues of rising personal consumption is in any way 'unsocialist', or will do anything in practice to lower the moral tone of society. Of course to accept them implies nothing about the priority to be given to home consumption as opposed to other claims on output – that is discussed in Section V. It simply means that we accept it as one out of many desirable aims of social policy.

#### IV *The Paternalist Objection*

This objective is sometimes attacked, however, as being based on a fundamental delusion: namely, that it will increase welfare, or make people more contented. As soon as existing wants are satisfied, it is said, new ones will spring up in their place: the gap between possessions and desiderata never narrows: and rising personal incomes will therefore leave people just as dissatisfied as they are to-day – all this annotated with contemptuous remarks about a television-set-refrigerator civilisation.

I have never thought much of this argument, although in fact the case as presented earlier in this chapter was not based on the proposition which it seeks to deny. No doubt the gap between possessions and aspirations is never fully closed. But because no saturation point exists, it does not follow that the gap is always constant. If this were so, it would imply that individuals never felt economically better off as their real incomes rose, and generally that improvements in the standard of living had no effect on the economic welfare of either nations or persons (at least after a certain point – I suppose that even the most ethereal view of the unimportance of material goods would concede that relief from acute poverty and starvation would increase economic welfare).

But the fact is that people do feel economically better or worse off; and they distinctly like to feel better off. Thus working-class people will frequently say that they are much better off now

<sup>1</sup> Section IV.

than they were before the war; and middle-class people will admit that economically things are much easier now than a few years ago. And these are not meaningless statements. Indeed the sceptic need only study recent voting trends, or collect impressions of the last election, to convince himself that changes in the level of consumption do reflect themselves in diminished economic discontent. It would certainly be hard to explain the social and political history of the last 50 years if this were not so.

Naturally, as I have argued before in a different context, one cannot state dogmatically that rising material standards, or any other socio-economic change, will make people 'happier'.<sup>1</sup> I personally think that they probably will. But on certain possible views of the causes of unhappiness, they might simply alter the direction which it takes, causing it to become more personal, rather than being articulated in political or economic grievances. Even then I should still regard rising standards as wholly desirable; first, because, for reasons already discussed, it is preferable that grievances should take a personal rather than a collective form: and secondly because whatever the effects of rising standards on happiness, they clearly increase the individual's range of choice and area of cultural possibilities.

But there are some moral ascetics, especially amongst the more astringent type of intellectual, who would deny even this. They base an instinctive hostility to higher consumption not on a fear lest it may fail to make the masses happier (rather indeed the reverse), but on an aversion to the *form* which the higher consumption allegedly takes. They combine a belief in the moral virtues of abstinence, with a conviction that the working class wastes all its higher income on alcohol, tobacco, and gambling.<sup>2</sup> This mixture of puritanism and paternalism is curiously common amongst the British intelligentsia. The Webbs, of course, typified it to perfection: consider Beatrice's favourite phrase, 'the average sensual man' – how the adjectives sting!

A more recent example may be cited, chosen only because it is recent and not because it is worse than most. 'There is still much wasteful and unnecessary expenditure in a country like

<sup>1</sup> Chapter IX, Section VI.

<sup>2</sup> This is really a more refined version of the old 'coals-in-the-bath' argument.

Britain. . . . There is a surprisingly large amount of fat to be melted off the general mass of solid working- and lower middle-class families. The wastage here may well be far greater, in total, than in the small marginal "luxury" or "problem" groups which waste on a more conspicuous scale. The best-known surveys of recent years give the impression that the chief spending outlets of the British masses are pubs, pools, and prostitutes. . . . A certain sparseness and asceticism . . . is part of the good life, and it would hardly be claimed that the British consumer has attained it.<sup>1</sup> Indeed it would not, and it is to be hoped that it never could be.

There is really little to be said about this attitude, except that one does not share it. These critics are entitled to their views, so long as they recognise that they represent a highly idiosyncratic set of values, which does not represent the general will or mood of the country: and that any attempt to express it in government policy, or to play down the objective of rising consumption on this account, would be a wholly improper and undemocratic exercise in paternalism.

In fact, of course, these strictures give a misleading impression of how workers spend their extra incomes. Naturally the figures show large increases in the money value of drink and tobacco expenditure. Much of the increase is due simply to higher tax; and these were, after all, the traditional working-class luxuries, and as such were bound to attract a high proportion of extra spending in the early stages of a rapid rise in incomes. But they are already approaching satiation point; and we can expect that future increases in income will mainly be spent in what everyone would agree were creditable directions – in giving children a better life, in improving health, making a more generous provision for old age, buying a house, travelling and going on holidays, relieving drudgery in the home by buying washing-machines, drying-machines, electric dish-washers, and the like.

Some of the increase will of course be taken out in leisure, and may even be spent on culture. 'In spite of all that is said', wrote Matthew Arnold, 'about the brutalising influence of our passionate material progress, it seems to me indisputable that this

<sup>1</sup> Michael P. Fogarty, *Economic Control* (Routledge, 1955), pp. 124-5. And on a later page: 'It is possible to say of some forms of expenditure, as, for instance, alcohol, that they are either immoral in themselves or liable to lead to immorality' (p. 132). People should speak for themselves.

progress is likely, though not certain, to lead in the end to an apparition of intellectual life; and that man, after he has made himself perfectly comfortable and has now to determine what to do with himself next, may begin to remember that he has a mind, and that the mind may be made the source of great pleasure. I grant it is mainly the privilege of faith, at present, to discern this end to our railways, our business, and our fortune-making; but we shall see if, here as elsewhere, faith is not in the end the true prophet.<sup>1</sup>

But whether it is or not, I should still regard a sustained rise in material standards as wholly desirable – probably because it will increase personal contentment, but certainly on grounds of personal freedom, since rising standards inevitably widen the area of choice and opportunity: on grounds of social justice, which surely requires that the masses, for so long deprived of luxuries which others have enjoyed, should now also be admitted to the world of material ease, if only to see whether they do in fact enjoy it: on strict egalitarian grounds, since rising consumption increases the fact and the consciousness of social equality, and so contributes to the fundamental aims of socialism: and on grounds of democratic anti-paternalism, since this is clearly what the workers want. And anyone who tells them they are wrong, and that in fact they are simply becoming vulgarised, or Americanised, will be given rather short shrift, especially if he himself appears to have a good deal of material fat which might be melted off.

Generally, those enjoying an above-average standard of living should be rather chary of admonishing those less fortunate on the perils of material riches.

## v *The Question of Priorities*

But since the open advocacy of higher home consumption is sure to be resented and misrepresented in certain quarters, the qualifications must be explicitly set out.

First, I am asking that it be granted, not an over-riding priority, but simply the status of an important socialist objective. Thus we might decide to give an over-riding priority, for a period

<sup>1</sup> *Essays in Criticism* (Macmillan, 1895 ed.), p. 17.

of years, to the needs of the under-developed areas, or to higher exports or investment. But let it then be recognised that the sacrifice required of British material standards is not a positive good in itself, which will strengthen the moral fibre of the masses and save them from the insidious temptations of Americanism and materialism: but the sacrifice of a definite socialist objective – and indeed of our hopes for a rapid advance towards social equality in Britain. Perhaps it may often be necessary to rate the claims of British consumption lower than other claims; but they should never be automatically put at the bottom of the list, but *should be considered, along with other claims, as having strict socialist merit.*

The second qualification concerns the distribution of the additional wealth. It is here that the difference between Conservative and socialist attitudes reveals itself. The Conservative, while accepting the aim of higher consumption, is content that it should fall where economic chance dictates – that it should remain with those so placed in relation to the productive process that they initially receive it. This means, in a free economy, that the benefits accrue in larger relative measure to the middle and upper classes than the workers, to capital gains than wages and salaries, to workers on piecework and bonus schemes than those on minimum time rates, and generally, reflecting a belief in low taxation and the minimum transfer of income, to the working population than to social service beneficiaries. This has already been the experience since 1951; and indeed it follows inevitably from Conservative views on taxation, wages policy, and the role of the capital market. The socialist, by contrast, should favour a distribution not according to a semi-automatic economic ‘fall-out’, but according to a system of social priorities which will certainly require strict government intervention for its enforcement.

Generally, this chapter is a plea less for specific changes in Labour policy, than for a change in psychology and ideology. The Party must recognise that its identification in the public mind with austerity, rationing, and restrictive controls is highly damaging, and that we are in grave danger of allowing the Tories to run away with the kudos of being the Party of prosperity and high consumption. We should now proudly proclaim the fact, though it seems almost incredible that we should need to do so, that we want to see individuals happy, and rich, and



enjoying what in the past have been solely the luxuries of the upper classes; and in the process we should take a long stride forward towards the classless society. No doubt the speed of our advance must depend on the urgency of other claims; but let us at least make our objective known.

## XIV

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### THE DISTRIBUTION OF WEALTH (I)

#### I *Injustice of the Present Distribution*

THE third distance factor to be considered is the distribution of wealth, that is, of the individual's total command over economic resources, or spending power. But does this matter, it may be said, if rising real incomes, however distributed, will in any case gradually equalise the pattern of living standards, and if, moreover, further redistribution cannot be definitely expected to increase economic welfare?<sup>1</sup>

It matters for two reasons. First, in an old society like Britain there will remain, at each level of average real income, more socially significant and conspicuous differences in consumption than in newer societies like the U.S. and the Dominions. This is because we inherit from an aristocratic past certain important prestige-symbols of wealth and superior class, which cannot in their nature ever be widely distributed, and which have for historical reasons a social or class connotation to which no analogy exists in a new country.<sup>2</sup> It follows that a more equal distribution of wealth will be needed to produce any given degree of equality in visible living standards.

Secondly, and much more important, the present distribution of wealth in Britain is flagrantly unjust; and this is wholly irrespective of the visible pattern of consumption, the effect of redistribution on economic welfare, and even the presence or absence of resentment against the injustice. The only relevant factor is

<sup>1</sup> *v.* Chapter IX, Section I.

<sup>2</sup> This applies especially to housing. The contrast can be seen in the new towns, where much less outward class distinction in housing is visible, not because all houses are the same size, but because they are all new.

that the possession of great differential wealth still confers an enormous social and economic advantage, however it is spent; and the distribution of this advantage is a matter of social concern.

Inequalities of wealth may be considered unjust, first, if they stem from inherited property, and not from work. This offends against the principle that every citizen should have an equal chance of attaining the highest rewards,<sup>1</sup> and confers a differential advantage related solely to the accident of birth, and not in any way the 'fruit of the man's own labour'.<sup>2</sup>

Secondly, large inequalities even of earned income may be thought unjust, either if they reflect not simply differences in ability but also differences in opportunity – if, that is to say, there is an artificial 'rent' element: or if they are so large that people think it unfair to single out the one quality of economic ability for so huge a reward as compared with other personal attributes.

Thirdly, injustice may arise if certain incomes are too generously treated by the tax system as compared with other similar incomes – if the basis of taxation, that is to say, is a poor measure of the taxable capacity of individuals.

These three sources of inequality, and therefore of inequity, are all very evident in Britain. (And their presence, especially the first two, explains why it is that any given degree of inequality is more unjust, and probably more resented, in Britain than in the Dominions or North America, where inherited property is less important, and everyone thinks he has an equal opportunity of reaching the highest income-grade.)

First, the unequal distribution of property is still the major cause of inequalities in spending power. Its importance may be seen even from the figures of conventional property income. Of the total amount of income liable to surtax in 1952-3, no less than 37% (£415 millions out of £1,110 millions) was unearned.<sup>3</sup>

<sup>1</sup> It also offends against another principle mentioned in Chapter IX, since it may lead to an excessive concentration of power.

<sup>2</sup> Not that this is a very sensible phrase even when applied to incomes from work. Most work-incomes are not the fruit of a man's individual effort, but of joint production to which many different individuals have contributed. How this joint output should be, and will be, imputed to individuals is a matter of personal judgment, the market structure of relative prices and incomes, relative bargaining power, and historical convention.

<sup>3</sup> The figures in this and the next paragraph are taken from the *Ninety-Seventh Report of the Commissioners of Inland Revenue* (Cmd. 9351), Tables 66, 70, 71.

Moreover, this unearned element was not distributed evenly amongst all surtax-payers, constituting simply a supplement to large incomes from work. On the contrary, the combination of a large earned and large unearned income is unusual; and the majority of surtax incomes are predominantly either the one or the other. If we take 70% earned as predominantly earned, and a similar figure for predominantly unearned, we find that 61% of surtax incomes are predominantly earned, 21% predominantly unearned, and only 18% a more or less equal mixture of the two.<sup>1</sup> In other words, a significant proportion of surtax-payers are rich only because of their large investment holdings.

And the higher up the scale we go, the greater the importance of unearned income. Whereas 70% of incomes between £2,000 and £2,500 per annum are predominantly earned and only 17% predominantly unearned, in the case of incomes above £20,000 the position is reversed, and only 30% are predominantly earned while 53% are predominantly unearned. Thus an actual majority of the very rich owe their position mainly to property income.

But of course these figures tell only a small part of the story, since the ownership of property confers far more substantial economic advantages than can be measured simply by the investment income to which it gives rise. It confers, most obviously, the advantage that very high levels of current spending can be sustained by the periodic judicious realisation of capital assets. The cost in terms of loss of future income is negligible at present surtax rates, the advantage enormous since expenditure out of capital bears no tax. The annual dissipation of only a small fraction of a large estate can easily fortify to the extent of two or three times the owner's post-tax income; and dissaving on this scale is now quite common amongst the wealthier classes. Thus the equalising intentions of fiscal policy are frustrated, and the distribution of consumption becomes much more unequal than the distribution of post-tax incomes.

Moreover, those who already possess capital can, if they are prudent and skilful (or have a good stockbroker), make substantial capital gains, especially on the Stock Exchange. These gains are tax-free. At current rates of increase in industrial profits and

<sup>1</sup> There has been an improvement here since 1945, when 43% were predominantly earned and 34% predominantly unearned. This must be mainly due to the rise in the number of surtax-payers with the rise in money incomes, most of the newcomers having small (by surtax standards) earned incomes.

dividends, the sums involved are now extremely large, and a major factor in raising the spending power of property-owners relative to that of the rest of the community.

Furthermore, inherited property confers a number of advantages which cannot be measured in money terms, but are manifestly of great significance. It confers access to the best possible education and professional training. It confers security, especially against old age. It confers the freedom to take risks. And it confers a wider range of economic choice both between occupations, and between work and leisure.

How unequally these total advantages are distributed may be seen from the figures of the distribution of private capital. It appears that 1% of persons over 25 own 50% of all private capital in England and Wales, 10% own 80%, while 61% must be content with a residual 5%.<sup>1</sup> If we take a wider definition of 'Total Net Worth' (liquid assets plus securities plus property plus private businesses plus loans plus motor-cars minus overdrafts minus debts), we find that in 1954 one-third of the population had a net worth of zero, over one-half of less than £100, and only 5% of over £5,000. This upper 5% owned 60% of positive net worth, 12% owned 80%, while 62% owned only 2%.<sup>2</sup> (And the figures would be much more unequal even than this but for the fact that many people own their houses.)

The second source of inequality is the distribution of incomes from work. Even after taxation, the spread from top to bottom is still about 20 : 1; and this is wider than most socialists would consider 'just'. But in this case justice needs to be tempered with efficiency, and questions of incentives arise. This is an issue on which, as I argued earlier, we need to adopt a rather agnostic attitude. It probably rules out any further major redistribution of earned income by direct taxation, and nothing more is said about this possibility. But *gross* incomes from work could certainly still be narrowed with a distinct gain in social justice, and no loss in economic efficiency.

Moreover the distribution of the top incomes between individuals is clearly unjust, since opportunities for attaining them are by no means always equal. Very high work incomes presumably

<sup>1</sup> v. Kathleen Langley, 'The Distribution of Capital in Private Hands', *Bull. Inst. Stat.*, December 1950 and February 1951.

<sup>2</sup> v. T. P. Hill, 'Incomes, Savings and Net Worth: The Savings Surveys of 1952-1954', *Bull. Inst. Stat.*, May 1955.

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arise because the supply of certain skills is scarce in relation to the demand. This scarcity may sometimes be absolute, and due to an unalterable shortage of innate talent. But often it is not; and the high incomes are not genuine rents of exceptional ability, but artificial rents of a monopolistic character. These may be due to a shortage of facilities for acquiring the best education and the necessary skills: or to restrictions on entry into certain professions: or to nepotism in the widest sense (selection from a narrow social circle).

A redistribution of property would do much to remove this rent element. For the rest, we need to reform the educational system in the manner described in Chapter XII: to break down the institutional barriers to free entry into professions such as Lloyds and the Stock Exchange, and into industries now protected by restrictive agreements: and generally to create a pattern of social relationships less dominated by nepotism and the 'old boy net'. And such a widening of opportunities would not only lead to a fairer (and more efficient) selection for the most lucrative occupations, but would also, by reducing the monopoly element in their rewards, narrow the vertical spread of incomes from work.<sup>1</sup> As these matters fall mainly outside the scope of fiscal policy, nothing more is said on them in this or the succeeding chapter.

The third inequity is that the basis of British taxation provides only an indifferent measure of taxable capacity; and the burden of taxation is therefore not allocated fairly between individuals. This is so for a number of reasons, of which the outstanding are that capital gains are excluded from the definition of income, and bear no tax: that certain classes are greatly favoured as compared with others in respect of allowable expenses: and that a number of obvious loopholes exist for tax avoidance.

This might seem merely a horizontal inequity, as between different taxpayers of the same wealth. But it also has implications for the vertical distribution of wealth, since it is in practice mainly large incomes which are let off lightly. As the Minority Report of the Radcliffe Commission pointed out, 'the tax base lags increasingly behind true taxable capacity as we move up the income

<sup>1</sup> Anyone who doubts the efficacy of wider social and economic changes in altering relative gross incomes need only consider the violent change in the relative income position of the salaried middle classes since before the war.

scale'.<sup>1</sup> A correction of these inequities would therefore not only make matters fairer as between different large incomes, but would also lead to a redistribution of the tax burden between all large incomes and the remainder.

The most important of these tax inequities, the exemption of capital gains, is intimately bound up with the first injustice discussed above, the unequal distribution of private capital. It is therefore on this aspect of inequality that this and the next chapter concentrate, since it is in principle the most indefensible, and in practice the most important. Other aspects are dealt with elsewhere.<sup>2</sup>

## II *Alternative Methods of Redistributing Property*

The maldistribution of private property can be attacked from a number of directions. First, existing property can be transferred to the State by direct property taxation. This is discussed in the rest of this chapter.

But property steadily increases in value with the growth in the national income; and we want this increment to be better distributed than existing property is. Secondly, therefore, we need to increase the ratio of public to private property in order to ensure that more of these gains accrue in public, and fewer in private, hands. Death-duties will help in this, provided they are treated as capital and not as income. Generally, this requires that we should increase public savings – by encouraging the nationalised industries to make profits, and by running a Budget surplus: and limit private savings, mainly by high taxation of company profits. These methods are all discussed in Part Five.

But so long as we have a mixed economy and achieve a rapid rate of growth, private savings, mainly in the form of undistributed profits, will inevitably be high. Thirdly, therefore, we must limit the extent to which high (corporate) savings are reflected in an increase in the personal wealth of the rich. This can be done partly by limiting the extent of personal capital gains – either by capital gains taxation (discussed in the next chapter) or by

<sup>1</sup> *Final Report of the Royal Commission on the Taxation of Profits and Income* (Cmd. 9474), p. 424.

<sup>2</sup> *v.* especially Chapter VII on social services, Chapters XVII and XX on profits and dividends, and Chapter XXI on wages.

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corporate taxation (discussed in Chapter XX): partly by distributing share-capital more equally (discussed in Chapter XVII): and partly, of course, by direct measures to encourage working-class saving and investment.

### *III The Case for a Gifts Tax and Higher Death-duties*

The most obvious method of redistributing existing property is by death-duties. It is clear that these are not now high enough. Contrary to original expectations, they have not effected any large alteration in the pattern of property distribution. The figures show, it is true, a faint improvement over four decades. The top 1% of adult persons, who now own 50% of the capital in private hands, in 1936-8 owned 55%, in 1924-30 60%, and in 1911-13 70%. Similarly the top 10%, who now own 80%, before the war owned 85%<sup>1</sup>. But so slow an improvement over so long a period is certainly not satisfactory. The offsetting forces of accumulation have proved sufficiently strong largely to counter the effects of the duties, which indeed have not done much more than prevent the maldistribution from getting worse.

It is true that Mr. Dalton and Sir Stafford Cripps respectively stiffened the duties in 1946 and 1949, as shown in the following Table.

#### THE OPERATION OF THE DEATH-DUTIES 1919-49

<i>Fortune valued at</i>	<i>Amount left after Duty has been paid</i>					
	1919	1929	1940	1945	1946	1949
£10,000	9,600	9,600	9,600	9,600	9,600	9,600
£100,000	91,000	81,000	77,200	75,300	70,000	55,000
£500,000	420,000	365,000	308,000	292,000	225,000	175,000
£1,000,000	810,000	710,000	544,000	506,000	350,000	250,000
£2,000,000	1,600,000	1,300,000	920,000	830,000	600,000	400,000

These last two increases, taken together, are substantial, and over the years will no doubt take some toll. But even now the amounts passing to heirs are very large – certainly large enough to make nonsense of any claim that we have equal opportunity, and all citizens an equal start in life. People continue to inherit

<sup>1</sup> v. Langley, *op. cit.* The percentage of total capital owned by people possessing between £100 and £10,000 rose (making allowance for price changes) from 39% in 1937-8 to 51% in 1946-7, while the share owned by people possessing more than £10,000 fell from 56% to 44%.



sums well in excess of £100,000, sufficient not only to yield an unearned income of £5,000 and upwards, but also, by dint of capital gains and the judicious realisation of assets, to sustain a level of expenditure much larger than the highest post-tax *earned* income in the country.

Those who hope, moreover, that the higher rates will steadily improve matters must remember that there are strong forces working in the opposite direction. First, avoidance, especially by gifts *inter vivos*, is only now growing to significant proportions. It was not until a few years ago that the rich seem to have woken up to the fact that the higher duties had come to stay, and their tax advisers to the easy loophole offered by the absence of any tax on gifts.<sup>1</sup> Since then the rich have increasingly been giving their fortunes away before death, and are likely to do so more and more. Owing to the five-year rule, the effects of avoidance on the yield of the duties are only now becoming apparent; but they must grow steadily more severe.

Furthermore, with full employment and a rapid rate of growth, the average annual rise in capital values will be considerably greater than in the past; and higher rates of death-duties would be needed simply to prevent the position from deteriorating. The probable long-term rate of appreciation of private real capital has been estimated at a minimum of £600 to £1,000 millions per annum.<sup>2</sup> This compares with a present yield of death-duties of some £160 millions; and although of course this yield would (at constant tax rates and degree of avoidance) also increase with capital appreciation, it would not do so sufficiently to prevent matters from getting worse rather than better.

The ineffectiveness of the higher rates, even now, to compete against the combination of growing avoidance and rising capital values may be seen by comparing two sets of figures. The number of surtax-payers with investment incomes of over £12,000 per annum rose in each of the four years 1949 to 1953. This rise, which is due to increasing dividends and therefore capital values, should imply an equivalent rise in the yield of the death-duties. Yet this is not occurring. The yield, despite the higher rates, shows no steady upward trend even in money terms, still less in real terms; in 1953-4 it was fractionally higher than the previous year, but still lower than in 1950-1 – presumably because the

<sup>1</sup> If made more than five years before death.

<sup>2</sup> Cmd. 9474, pp. 378 seq.

older rich are now more nimble at divesting themselves of their estates before they die.<sup>1</sup>

The first task of the next Labour Government in this field will therefore be to reduce avoidance by a tax on gifts. There would be no point in raising death-duty rates without doing this – the only result would be still more avoidance, and a growth of gifts *inter vivos* to the point where they made a complete farce of the duties, and wholly frustrated their intention. Gifts during lifetime must therefore be made liable to whatever rate and form of inheritance taxation is decided on. Gifts are subject to tax in the United States and many other countries. In Sweden, for example, a person making gifts to his descendants which amount in any 10-year period to more than the minimum exemption limit for estate duty pays the normal estate duty on those gifts (at rates which assume them to come from the highest *tranche* of his estate). In addition, the recipient pays a tax on the gift at rates which vary with his degree of consanguinity to the donor. The object is solely to prevent the evasion of death duties; and the two taxes are therefore exactly assimilated to the Swedish Estate and Inheritance Taxes. A similar tax is urgently required in Britain simply to make the present duties effective.

But given the sums still passing at death under the present duties (when not avoided), and the likely rise in private capital values under full employment, there is a strong case for increasing the nominal rates as well. This is especially so because death duties have, as compared with other forms of taxation, notable advantages. They are politically perhaps the least controversial of taxes; the moral argument against large inheritance, on grounds of equal opportunity and the equation of rewards with personal effort, is now widely accepted; and the number of people affected is very small.<sup>2</sup>

Hardly anyone now seriously accepts the once-popular view that whereas the taxation of income is legitimate, the taxation of property is not, since it amounts to an act of confiscation which denies the natural 'right' of a man to dispose of his own as he wishes. This distinction between income and property was always

<sup>1</sup> Though of course individual large estates can still be very badly hit if no avoidance measures are taken, or if two deaths occur in quick succession.

<sup>2</sup> With the new (1955) exemption limit, only about 33,000 people pay death-duty each year; of these, only some 5,000 would be affected by an increase in the rates on the larger (£25,000 and over) estates.

tenuous; and the argument was refuted once and for all by Sir William Harcourt, the author of the death-duties, in his famous Budget Speech of 1894. 'The State has the first title upon the estate, and those who take afterwards have a subsequent and subordinate title. Nature gives man no power over his earthly goods beyond the term of his life. What power he possesses to prolong his will after death – the right of a dead hand to dispose of his property – is a pure creation of the law, and the State has the right to prescribe the conditions and the limitations under which that power shall be exercised.' Moreover, it is now more widely realised that the virtually complete freedom of bequest which the English law allows is not a natural and universal practice, but only one of many possible varieties of inheritance law.<sup>1</sup>

It was also at one time fashionable to attack death-duties for over-riding the moral claims of widows and children to the property of the deceased. If accepted, this criticism would, of course, require a quite different form of inheritance law from the British freedom of bequest, under which widows or orphans may be cut off without a penny. But in any case the argument commands little support to-day. Penniless widows normally had penniless husbands, while the widows of rich men usually have some property of their own. The 'children' who inherit have an average age of forty, by which time they have not only had the advantage of an expensive education, but might perhaps be considered as able to fend for themselves and earn a living. Moreover, while a decent provision for widows and young children is a very desirable motive for saving, it can only justify the passing of quite modest sums, such as will be possible however severe the duties in the upper ranges, and not enormous fortunes of hundreds of thousands of pounds.

On the economic side, death-duties have the overwhelming advantage of not being a serious disincentive to work and effort.

<sup>1</sup> For a discussion of some quite different regulations of inheritance in other countries, c. Josiah Wedgwood, *The Economics of Inheritance* (Pelican Books, 1939), Ch. IV. In fact death duties are as old as the Roman Empire – though admittedly their introduction was not popular even then. When Augustus, in A.D. 6, first proposed an inheritance tax in order to defray the expenses of defence, 'the nobles of Rome', Gibbon tells us, 'were more tenacious of property than of freedom. Their indignant murmurs were received by Augustus with his usual temper. He candidly referred the whole business to the Senate, and . . . insinuated to them that their obstinacy would oblige him to propose a general land-tax and capitation. They acquiesced in silence.' And Gibbon even adds that the tax 'was most happily suited to the situation of the Romans'. (*Decline and Fall*, Vol. 1, Ch. VI.)

The desire to leave property after death, as opposed to giving children a generous start during the parents' lifetime, is only one of many (monetary and non-monetary) incentives to effort, and certainly not the most important. It is impossible to believe that any significant number of active and ambitious men will be deterred from enterprise and effort by the fact that the state will take more, and their grown-up children less, of what remains after their death. Indeed it is hard to think of any direct tax which has less disincentive effect.

One would expect, it is true, a more serious effect on the supply of savings. While successful men exert themselves from many motives other than a desire to hand over large properties at death, it is much more plausible to argue that they will save less if death-duties are increased. The desire to leave money to one's family is a relatively stronger motive in the case of savings-decisions than in respect of decisions about effort, in which ambition, emulation, the desire for power and prestige, and the wish to enjoy a high current standard of living, all play a part. Faced with the prospect that 80% of his estate will pass to the State and not to his family, a wealthy man might well not bother to build up his possessions, but choose instead to dissipate them in current consumption.

Nevertheless, the point can be exaggerated. 'The desire to build up capital possessions', wrote Professor Pigou, 'is not a simple thing. It is made up of various elements blended in various ways among different men. One element is the desire to be able to exercise the constructive force, which a strong man may find in himself, in conjunction with a large-scale undertaking; another is the desire for that power in society . . . which great wealth confers; another is the desire for fame or notoriety: another the desire for a large income accruing without effort in later life: another the desire for posthumous glory in dying very rich: another mere inertia. . . . All these motives are concerned only with the lifetime of the man who contemplates saving under the stress of them: the fact that after his death his fortune does not also die is, so far as they are concerned, an irrelevant accident.'<sup>1</sup>

<sup>1</sup> A. C. Pigou, *A Study in Public Finance* (Macmillan, 1947 ed., pp. 142-3). But some of these motives are probably weaker to-day, with the change in social character, than in Victorian days—for example, the desire for posthumous glory in dying rich. Surely fewer people now gloat in anticipation over 'the majestic effect of that little paragraph in the morning papers accorded to Forsytes who die with a hundred thousand pounds'. (*The Man of Property*.)

Some weight must be attached to these diverse motives for accumulation; moreover the increasing tendency to give capital away before death may, paradoxically, help to buoy up the family motive for saving. Nevertheless, any significant steepening of the duties must be expected to have some effect on the propensities to save and dissave; and given the precarious margin which separates full employment from inflation, even a small effect could be serious. Yet we must not be manoeuvred into the farcical position where large property-owners can blackmail the State, by threatening to create inflation, into leaving them alone. We must therefore push on with higher property taxation, but accept, as a corollary, the necessity for simultaneous measures to discourage spending out of capital, and generally to encourage savings.<sup>1</sup>

How high should the duties be raised? The socialist case against large inherited fortunes clearly requires a maximum limit on the amount of inheritance permitted. It is not easy to say exactly where this should be set. It should perhaps be set at, or even rather above, the amount which a successful and prudent business or professional man might reasonably hope to accumulate during his lifetime. Perhaps the limit might eventually be set at £50,000, with the rates sharply increased between £25,000 and £50,000. Such an objective of course cannot and should not be achieved at a single fiscal blow. But the next Labour Government must certainly move the next stage; and it should be quite a long one.

If these figures were adopted, only 15% of estates now liable, or some 5,000 families annually, would be affected – only, that is to say, a tiny class of (mainly) hereditary rich. The hard-working professional and salaried classes would be untouched; and nothing would occur to prevent them from working and saving to pass on a moderate but helpful – indeed a generous – sustenance to their dependants. No widows would be left suddenly penniless; and the sums still passing would be ample, for example, to enable young married couples in the middle ranks of society to buy a house, and generally to make a comfortable start to their lives together. At the same time, no individual legatee would normally inherit enough to permit of a prolonged sumptuary existence either on unearned income or by drafts on capital.

This should be a sufficient answer to ill-informed critics who

<sup>1</sup> *z.* next section, and Chapters XIX and XX.

suppose that socialism is against all thrift and saving, or the continuity of family life, or the living standards of the middle class. Of course it is nothing of the sort. The socialist aim is the removal of extremes of wealth, not the reduction of all to the lowest common standard.

#### IV *The Case for a Simultaneous Reform of Death-duties*

This, then, should be the broad objective. But it is not certain that a simple increase in the existing estate duty is the best method of achieving it. Estate duty grades the tax according to the size of the total estate. But this is not the only, though it is the simplest, form of inheritance tax. There are two obvious alternative methods of assessment. The tax might be graded according to the degree of consanguinity of the legatee to the testator (as it was under the Legacy and Succession Duties, abolished in 1949, and as it is under the Swedish Inheritance Tax), or according to the size of bequest received by each legatee (either the individual bequest, or the cumulative total of bequests from all sources).

The Succession principle does less injury than estate duty to the saving motive, since bequests to the nearest relatives (widows and children) are more lightly taxed than other bequests. But conversely it is less effective from an egalitarian point of view, since the largest bequests, being normally those to the nearest relatives, attract the least tax.

The principle of progression according to bequests received is logically the most sensible of all. Social justice requires attention less to the total size of the estate, than to the amounts received by the beneficiaries. But a simple estate duty presupposes complete indifference to the disposition of the estate, and an interest solely in its size. This is certainly illogical from a socialist point of view. We should be far from indifferent to whether a large estate passes wholly to a single individual, or in small parcels to many different individuals, or to charitable purposes (e.g. the upkeep of churches, bequests for which purpose still attract duty). On the contrary, we should be most hostile to the first disposition, much less so to the second, and not at all to the third. It follows that we should logically tax the first disposition at a higher rate than the second,

and the second at a higher rate than the third. This is impossible under estate duty, but could be largely achieved by a duty graded according to the size of bequests accruing to any individual. Such a duty would not only accurately fulfil the essential objective (which is to prevent the receipt of large unearned sums by the legatee, rather than the transfer of large sums by the testator), but would also encourage the division of large estates into smaller parcels, and so help to disseminate property more widely by a natural process quite apart from the yield of the duty itself.

It is true that any form of assessment other than on the total estate raises administrative difficulties. Estate duty is a tax-collector's dream, since the provisions of the will are irrelevant. But once they have to be considered, complications arise – for example, where property is left in trust to be disposed of in various ways at later dates; time must then elapse before the duty is collected, and it may not be easy then to isolate the actual beneficiaries. Nevertheless the Inland Revenue informed the Colwyn Committee that such a duty was not administratively impossible; and there is a strong case for accompanying an increase in estate duty with some progression according to bequests received. Certainly any maximum figure would apply much more logically to total receipts of bequests, than to the total size of the estate.

The most ingenious method of combining these alternative principles is the well-known Rignano Plan (so-called after the Italian economist who first propounded it), which at one time attracted so much discussion in socialist and economic literature.<sup>1</sup> The original proposal was that property passing to heirs for the first time should bear one rate of duty, but a higher rate when passing a second time to the heirs of those heirs, and a 100% rate when it came to the third set of heirs.

This suggestion has much, in principle, to commend it. It would extinguish inherited wealth altogether at the third time of passing. It taxes saved wealth less severely than inherited wealth, and bequests to immediate heirs less severely than bequests to more distant heirs. Both these characteristics would be beneficial to the incentive to save. But it is open to serious practical objections, which arise from the 'progression through time' element in

<sup>1</sup> v. Report of the Colwyn Committee, Hugh Dalton (*Principles of Public Finance*, Routledge, 1922), Douglas Jay (*The Socialist Case*), Pigou (op. cit.), Wedgwood (op. cit.).

the scheme, and hinge mainly on the possibility of default at the second time of passing. Suppose an heir to have squandered his inheritance: his own estate when he died might then be inadequate to pay the deferred impost due on it. Indeed even the most virtuous of heirs might be helpless to prevent a fall in the value of his inherited property (e.g. through a depression, or a sharp rise in interest-rates). He would then either be unable to pay the deferred duty at all, or else have to pay it out of his own accumulated savings, which would clearly be unfair, and indeed distort the whole purpose of the tax.<sup>1</sup>

To meet these objections, a series of modifications have been proposed at various times, of which the most sensible still seems that originally proposed by Mr. Dalton.<sup>2</sup> Under his scheme, two distinct duties would be levied on each estate: first the estate duty, assessed in the normal way on the total estate, and secondly a supplementary inheritance duty graduated according to size of individual bequest. This supplementary duty, assessed when the estate first passes, would under the Rignano scheme fall to be paid only on the death of the legatee; under Mr. Dalton's scheme, the duty payable would be surrendered in advance at the time of receipt, the interest on it being paid back annually to the legatee during his lifetime. This would be accomplished by the legatee's surrendering cash, land, or securities, to the extent of his Inheritance Duty liability, in exchange for terminable annuities yielding an equivalent income.

This would wholly eliminate the risk of ultimate default, and would also do much to prevent the increased dissaving by the rich which might otherwise follow any increase in the duties. It would also maintain the positive incentive to save provided by the Rignano Plan, since saved capital would still benefit the widow and children, whereas inherited capital would be largely extinguished at death. And it introduces the logical principle of progression according to size of bequest, and would enable a maximum limit to be set on individual bequests.

There is therefore a strong case for a reform of the death-duties along these lines. It has received consistent support through the

<sup>1</sup> An opposite injustice would arise where the heir had so deployed his original inheritance (on which, for obvious administrative reasons, his deferred tax liability must be assessed) in such a way as to make large capital gains. This also would frustrate the purpose of the scheme.

<sup>2</sup> For a summary of this, *v. Practical Socialism for Britain.*



years from socialist and other economists,<sup>1</sup> and was rejected by Mr. Dalton when Chancellor only because 'there was so much else going on; I put it on the list of good deeds to be done, if I ever got into smooth water'.<sup>2</sup> This is a list which may be worth the scrutiny of the next Labour Chancellor.

But whether this reform is adopted or not, the problem will arise, once the duties are raised really high, of how they shall be paid. It might not be easy for the heirs to a large estate to make a sudden forced sale of virtually the whole estate in order to pay in cash; and even if market conditions permitted, it might well be socially undesirable. Here, as in other spheres, the corollary of greater equality, if certain benefits previously flowing from the expenditure of the rich are not to be placed in jeopardy, is a greater responsibility on the part of the State. Large historic mansions provide a pertinent example. The community has a strong interest in their proper upkeep, and the present rate of decay and destruction is appalling. Increased death duties must inevitably make matters worse. Suppose that an heir cannot pay the duties without disposing of a mansion and most of its contents, what is to be their fate? One must immediately be troubled at the prospect. Many undesirable or vandalistic things might happen, and must be prevented. The State should therefore be willing to accept payment in kind and with it the responsibility for the upkeep of the mansion, which it would no doubt in practice hand over to the National Trust with a suitable endowment.

The principle of payment in kind was introduced by Mr. Dalton in respect of land; and a few large tracts have already passed to the state. It should now be extended to real estate and quoted securities. In the case of land and real estate, several public or semi-public bodies already exist which could carry the new responsibility efficiently. In the case of securities, some new organisation would be needed. This would be a most interesting development. It is now generally agreed that there are definite drawbacks to the wholesale nationalisation of entire industries; yet socialists still want to see an increasing proportion of property income and capital gains accruing to the community, instead of to a small property-owning class. Payment of death-duties in

<sup>1</sup> From, for example, Mr. Dalton, Professor Pigou, Mr. Jay, Mr. Wedgwood, and E. F. M. Durbin.

<sup>2</sup> *Principles of Public Finance*, 1954 ed., p. 232.

kind, which would be a form of gradual and piecemeal public ownership, would help to resolve the dilemma.

The Government would need to establish a body of Death-duty Commissioners, analogous to the National Debt Commissioners, though with a different function. Whereas the purpose of the latter is to support the Government's monetary policy, and so to operate mainly in the gilt-edged and money markets, the former would act like an investment trust, seeking to maximise dividends and capital gains. Their capital should consist of the total cumulative yield of the duties, which should accrue to them whether payment was made in cash or kind. This would both require and facilitate a change in Budgetary accounting which is in any case to be desired on grounds of economic logic, namely, that death-duties should cease to be treated as an ordinary 'above the line' revenue item, and should be treated as a capital receipt.

This might have another incidental advantage. Many people fear that increasing equality may threaten the supply of risk capital, and that particular sectors of industry may find it hard to obtain new capital from the traditional sources. A later chapter discusses this point, and considers the possibility of a government investment corporation to provide funds to industry.<sup>1</sup> Such a body, if set up, would find its task much easier if there already existed, in a government death-duty fund, a growing portfolio of gilt-edged and industrial stock, all easily marketable. Between them, these two novel approaches might make an interesting contribution to a more fluent movement of capital between different sectors of the economy.

However that may be, the project of accepting payment in kind would still constitute a fascinating social experiment, and one that will in any case become inevitable as we move to correct the maldistribution of private property.

## v *The Case Against a Large Capital Levy*

But death-duties redistribute rather slowly, since estates pass on the average only once every 30 years; and meanwhile the forces of accumulation are working in the opposite direction. Some socialists would therefore like to hurry things along by

<sup>1</sup> *v.* Chapter XX, Section V.

having a capital levy. This proposal has attracted a vast literature, extending over several decades. But much of it, dating from a period when conditions were quite different, is overlaid with arguments both for and against which are irrelevant to-day, not to mention arguments which were false in the first place.

The most popular argument for a levy during the original discussions in the 1920s now carries much less weight. This was in terms of the burden of the National Debt. The size of the Debt has, it is true, grown enormously since then. But the real burden of servicing it has actually diminished owing to lower rates of interest, higher rates of taxation, and of course the growth of the national income. Indeed as a proportion of the national income the net cost of interest payments is now negligible; and it would be quite out of proportion to urge so large a measure for the small saving that would result in this direction.

Similarly there are conventional arguments against the levy which are not conclusive: for example, that the problem of valuation is insurmountable (as to which there is no definite evidence one way or the other), or that a levy would be in some way *ultra vires* and amount to pure confiscation (which it would not, any more than income or inheritance taxes), or that it would cause a catastrophic collapse of capital values as all property-owners tried simultaneously to convert their capital into cash (which it need not do, for quite apart from the possibility of accepting payment in kind, modern methods of monetary management are quite adequate to maintaining the total liquidity of the financial system even in circumstances such as these).

Let us then proceed to the main question. First, what is to be the scale of levy? I am aware of only one detailed proposal in the last few years, and I shall therefore take that for illustration.<sup>1</sup> As will be seen, the rates suggested are very high – a good deal higher than those in the Labour Party's original proposal after the First World War. There is a good reason for this. An essential object of the levy to-day is to prevent the rich from frustrating the intentions of income-taxation by consuming capital. But to tax away only one-half of a rich man's estate would merely encourage him to consume the remainder – indeed the encouragement would be irresistible, since he will certainly expect the levy to be repeated later. The Government might try to reassure

<sup>1</sup> This was put forward in a *Tribune* pamphlet in 1951.

him to the contrary. But he may easily remain rather sceptical, believing, in the words of the old adage, that 'taxation without misrepresentation isn't politics'; and in any case governments cannot bind their successors. A moderate levy would therefore be a clear invitation to rich men to dissipate their residual estates; and the result might be a period of riotous dissipation with consequences, both social and inflationary, which would hardly be agreeable. There is thus force in the contention that the levy must be sweeping, and largely eliminate, instead of merely reducing, the larger estates.

The scale of levy which has been proposed is as follows:

<i>Of an individual's property:</i>	<i>% levy</i>
On the first £20,000 (i.e. from £0 to £20,000).	0
On the next £10,000 (i.e. from £20,000 to £30,000)	50
On the next £20,000 (i.e. from £30,000 to £50,000)	75
On the next £50,000 (i.e. from £50,000 to £100,000)	90
On the remainder (i.e. above £100,000).	95 or 100

To illustrate the implications of these scales, a few examples may be taken. If the rate on the highest *tranche* is 100%, the maximum left to any individual would be £35,000; and all estates above that size would be reduced to it at a single blow. Even if the rate on the last *tranche* were 95%, an estate of £100,000 would be reduced to £35,000, of half a million to £55,000, and of a million to £80,000. At the other end of the scale, an estate of £30,000 would pay £5,000, and one of £50,000 would pay £20,000.

I must say at once that I do not regard such a proposal as a serious possibility. The social, economic, political (and probably technical) arguments against it are overwhelming.

First, what would be the social consequences? All large fortunes and estates would be suddenly destroyed, and the whole of the propertied classes (and more especially the settled landed class – the financial classes would no doubt find a means of partial escape) would find themselves catapulted into a state of complete confusion, with quite unpredictable social results.<sup>1</sup> Even

<sup>1</sup> These would not be avoided by the proposal to pay those subject to the levy a terminable annuity, yielding some fraction (varying, it has been suggested, from one-half to one-quarter according to the size of estate) of the income which they have been forced to forgo. The rich are not financing their present expenditure out of their post-tax investment incomes; and an annuity of this kind would scarcely affect the amount of dislocation caused by the levy.

upper-middle-class families might find themselves faced with a demand note for anything between £5,000 and £20,000, compelling a sharp adjustment in their lives. Property would be changing hands in a kaleidoscopic manner: large houses being sold, art treasures disposed of, agricultural land transferred, industrial securities moving hither and thither, new mortgages being taken out on small businesses, and the State becoming possessed of a huge mixed medley of properties. And to a significant extent this movement of property would be away from the stable established families towards – partly, it is true, the State, but partly also the institutional holders of the National Debt, and *nouveau riche* speculators exploiting to the full a glorious opportunity of picking up property on the cheap. It is not clear that all this would be very desirable.

The fact is that a society like ours is an organic unity – ‘a going concern’, in Mackinder’s phrase:<sup>1</sup> and one so highly organised and interdependent between its various parts, resting as it does on a balance of tensions, thrusts, and stresses, that intervention at one point will have effects at numerous and often unexpected other points. One therefore cannot give it a shock of more than a certain violence without the risk of damage to the entire structure. This applies to any measure as far-reaching as a large capital levy, which must have so many unforeseen results that no proper provision could be made to meet them. The essential argument for evolutionary change is that it allows one to be experimental, since the problems involved in change then unfold themselves at a speed which gives ample time for dealing with them. A sudden act of disruption permits no such breathing-space – the old has gone before the new has grown to take its place; and the result is a dangerous vacuum. One should never monkey about with society too much; if we do, we may find that history has some unpleasant surprises up its sleeve for us.

The economic consequences would be equally unpredictable. The effects on investment and risk-bearing in the private-company sector of the economy: on agricultural production, when a large enforced change is taking place in the pattern of land-ownership: on the supply of capital, when a large proportion of total capital assets suddenly passes into the possession of the State: on the foreign exchanges, and the flow of capital

<sup>1</sup> v. *Democratic Ideals and Reality* (Constable, 1919), Ch. 1.

## THE DISTRIBUTION OF WEALTH

funds: and on economic activity generally when so many leading people (in both industry and government) are absorbed in dealing with the levy – all these are unforeseeable; but they hardly conjure up a very cheering prospect.

To take the simplest point, could the State, assuming that various forms of asset were accepted in payment, cope efficiently with the heterogeneous mass of property which would suddenly fall into its lap? I suggested above that payment of death-duties in kind would be a fruitful new experiment. But it would only start gradually, with a small number of estates passing each year, so that the new problems and possibilities which opened up, and which could certainly not all be predicted in advance, could be considered at leisure. But with a levy on this scale, land, securities, buildings, and so on would at once pass to the State to the tune of over £7,000 millions; and no one would know how to manage it or what to do with it.

Let us examine one possible economic consequence in more detail: the effect on family businesses.<sup>1</sup> Many of these – agricultural as well as manufacturing or trading concerns – will be above the exemption limit. If the owners have the bulk of their capital locked up in the business and too few private assets out of which to pay the levy, they must either borrow the money to pay, or sell off part of the business. Now it is quite true that if the monetary authorities stand ready to maintain liquidity, potential buyers or lenders must exist somewhere; and no overall monetary problem is created.

But of course the property market is not a single perfect market, but a series of largely separate markets. And the class with liquid funds available after the levy (i.e., the late holders of government debt now redeemed) will consist of people who do not normally venture on a large scale into farming or manufacture. If they are to be persuaded to invest their liquid funds in the agricultural and industrial properties now coming on to the market, with their new and unfamiliar risks, these will have to show a sharp fall in price. Generally, if different kinds of property are

<sup>1</sup> It is not that one need have any particular bias in favour of family businesses. They are usually less efficient than public companies, besides being a breeding-ground of nepotism; and it is no criticism of the death-duties that they periodically compel the conversion of individual family businesses into public companies. But we are here concerned with a much wider question: the effect of a simultaneous forced sale of numerous such businesses at a time of fluctuating capital values.

changing hands on this scale, considerable changes in relative capital values must occur if willing sellers are to be matched up everywhere with willing buyers. In particular, a heavy premium will be set on safe and liquid assets, and gilt-edged values may rise sharply relative to the values of small and risky enterprises. Such changes in relative interest-rates can hardly be good for productive activity.

Moreover the new owners, into whose hands part-shares of, or mortgages on, industrial and agricultural concerns will fall, will be rather a curious lot. They will all be holders of redeemed debt – in other words, mainly the insurance companies and financial institutions, with a scattering of the less venturesome type of private investor. It is not clear that we want such people greatly to increase their control over the economy at the expense of large farmers and small businessmen. Yet this is typical of the sort of result which might follow a shift in property-ownership on the scale envisaged. Possibly these, and many other, economic risks might be worth taking, were Britain's economic position perfectly stable and secure. In the light of our rather precarious balance of payments, it seems somewhat foolhardy.

But perhaps the possible economic and social consequences hardly matter, since the political arguments against the levy are overwhelming in themselves. A large levy involves the virtual destruction of a certain social class, not by an evolutionary process lasting several decades – that is common enough in British history – but at a single blow. The class is not, of course, numerically large – only some 17,000 persons own capital of more than £100,000 – but its role in the country's life is still considerable. And a larger social group would be quite severely hit – to an extent which is accepted in respect of death-duties, but would be much less so when large numbers of living persons were simultaneously affected. (Some 117,000 persons have capital of over £25,000; counting in families and dependants, this is quite a substantial number of people.)

Now the sudden expropriation of property on this scale, with the disruption of social life which it would cause, amounts to an almost revolutionary act – indeed one comparable in its scope to an Act of Parliament nationalising all personal property overnight without compensation, and certainly one exceeding in its *instantaneous* social effects the Reform Bill of 1832, the House of Lords

reform of 1911, or the General Strike.<sup>1</sup> One is here in the realm of conjecture; but my strong impression is that such an act is out of tune with the British political mood, and oversteps those crucial though indefinable boundaries of mutual tolerance, and willingness to compromise, on the preservation of which a democratic system ultimately rests.

In fact it is doubtful if the levy would ever command sufficient support from the rest of the population to ensure its passage against a merely robust, and not unconstitutional, opposition on the part of property-owners.<sup>2</sup> Indeed it is still more doubtful if an election could be won in the first place if any hint of the levy were contained in the Party's programme (and to give no hint would surely be immoral). The great bulk of the middle classes, even though well below the exemption limit, would of course be violently scared, both in ignorant fear that they might themselves be affected either now or in the future, and generally because of a natural antipathy to violent measures.

Even the workers might not give the levy undivided and enthusiastic support. They could not themselves expect to gain much from it financially; and it is wrong to imagine that their mood is normally revolutionary. E. F. M. Durbin once wrote wisely of a similar measure: 'The working class itself would not approve of such measures. With the possible exception of the periods immediately before and immediately after the [first] war, the working class has not been in a revolutionary mood for nearly a hundred years. . . . Any Labour Government that was foolish enough to commit itself to revolutionary action would lose the electoral support on which it had been formed, would have to fight without an army to lead, and would become a sorry company of deluded Jacobins, fighting a people.'<sup>3</sup> This is even more true now that when it was written 16 years ago.

But even if the levy did command just enough support to ensure

<sup>1</sup> Which makes it all the more curious that the supporters of the levy are often to be found on the extreme Right-wing of the Party, especially amongst academic economists. Clearly some process of compensation is at work.

<sup>2</sup> Moreover it is highly doubtful if the levy would be practicable on *technical grounds* against such opposition. All discussions of the technical aspect have stressed that a *sine qua non* of a successful levy is a general psychological acceptance of the case for it; without this, no hope would exist of a speedy valuation and collection, successful evasion would be widespread, and the effect on the exchanges extremely damaging. Of course there is no hope of any such general acceptance in normal peacetime conditions.

<sup>3</sup> *The Politics of Democratic Socialism*, pp. 277-8.



its passage, the Labour Party would still be wise not to attempt it.<sup>1</sup> The tradition of social and political tolerance which has, for all the periodic outbreaks of class violence, steadily sustained British liberal democracy, has brought inestimable gains to the country as a whole, and to socialists in particular, since it has permitted large changes in an atmosphere of social peace and relative good-will. We shall never create a stable socialist society if we fly in the face of this tradition, and convert this relative tolerance into sullen opposition, if not worse.

A large capital levy is an illustration of the principle that the choice of means often determines the end. The object of greater equality, to a socialist, is to conduce to a more contented and more just society. But although society would be more contented and more just if property were more equally distributed, it does not follow that this would be true irrespective of the methods chosen to redistribute. It seems clear that a large levy would increase, rather than diminish, the amount of resentment and discontent. It might help towards the formal objective of an egalitarian, classless society; but it would not help towards the real objective, namely a society which, being classless and egalitarian, is therefore also more *just and more contented*. Such a society can only be reached by steady and evolutionary stages.

<sup>1</sup> That is, a levy so large as to extinguish great wealth at one blow. This would not wholly rule out a smaller levy, which would not have all the consequences described in the text. But, as we saw above, a smaller levy would certainly cause the rich to expect a further instalment later on, and so to dissipate their remaining capital. In practice, therefore, given also the administrative and political difficulties, it could only be introduced in circumstances when it could legitimately be related to considerations other than the redistribution of property – e.g. during a war, or a period of re-armament, or national crisis – and so could convincingly be portrayed as non-recurrent.

## THE DISTRIBUTION OF WEALTH (II)

1 *The Tax Bias in Favour of the Property Owner*

FOR a steady advance towards equality, death-duties alone will not suffice. They bite only slowly; and meanwhile inherited property confers altogether too large an advantage on a small class of wealthy persons. Moreover, a tax on inheritance does nothing to correct the inequities amongst the living between those with property, whether inherited or accumulated, and those without; whatever one may think about inheritance or the right *vertical* distribution of income, the British tax system fails to distribute the burden fairly as between property-owners and non-property-owners.

It fails to do so because it is based on income; and the definition of taxable income is not an adequate measure of true spending power, or taxable capacity, in any society in which private property exists on a large scale.<sup>1</sup> Thus it makes no distinction (except for the minor differentiation introduced by the existing earned income allowance) between two individuals with the same income, even though one has property worth £100,000 and the other no property at all.

Clearly the spending power, or wealth, of these two individuals is by no means identical. The first, unlike the second, can adopt a nonchalant attitude towards the future, and need make no provision out of his income against the day of his retirement; he is not faced with the risk that his income may fail, or be interrupted, on account of sickness or accident; and above all he can

<sup>1</sup> It will be obvious to the reader that the whole discussion of taxable income in this chapter owes much to Mr. Kaldor's recent fiscal writings.

supplement his consumption by large amounts through the sale of capital assets, or from capital gains. The financial situation of the two individuals is thus in no way comparable, and in no way reflected in their actual incomes. An income basis of taxation therefore involves a bias in favour of property-owners, whose taxable capacity is under-stated as compared with those whose incomes are derived from work. This inequity calls for correction whatever may be decided about inheritance; though in practice corrective measures will also diminish the spending power of inherited property in the interval while death-duties are slowly doing their work.

Such measures could take the following forms: a direct annual tax on property, a heavier discrimination against unearned as compared with earned incomes, and the taxation of capital gains.

## II *An Annual Property Tax*

The possibility of an annual tax on capital, which would be in the nature of a small continuous capital levy, has been curiously little discussed by socialists, or even economists.<sup>1</sup> It has obvious advantages. It would not have the unpredictable consequences of a once-for-all, large-scale capital levy; yet it would have a continuing influence on the distribution of property, and with no ill effect on incentives to effort and enterprise.

In what little discussion there has been, the writers have usually assumed that anything called an annual capital or property tax would have very moderate rates, and would in practice, however assessed, be normally paid out of income. This could not be so to-day. At present rates of surtax, even exceedingly modest rates of capital tax would quickly raise the total tax burden to above 20s. in the pound; and on all larger incomes the tax would necessarily be paid out of capital.<sup>2</sup> This was the case, as all commentators agreed, with the Special Contribution in 1948, which was a non-recurrent property tax, even though assessed on income. And of course if the object is to influence the distribution of property, the tax would make no sense unless it fell on capital.

<sup>1</sup> The only recent detailed discussion that I am aware of is in J. R. Hicks, U. K. Hicks, and L. Rostas, *The Taxation of War Wealth* (Oxford, 1947), Ch. XXII. The matter is also mentioned in Mr. Kaldor's recent book, referred to later.

<sup>2</sup> That is, if it was not avoided altogether (*c.i.*).

Previous discussions, which have assumed payment out of current income, therefore offer little help.

Should the tax be assessed on capital or investment income? (It applies, of course, only to private and not to business holdings of capital.) At first sight there might seem to be no difference, if it is assumed that the value of property is, in the long run, determined by the income it yields. But in fact there are many forms of capital which yield no money income, but a generous non-monetary satisfaction—what used to be called 'psychic' income; such are cars, yachts, artistic treasures, valuable jewellery, etc. These would bear tax if the assessment were on property, but none if it were on money income; and it might be thought unfair that one man, who has invested heavily in such objects, should escape more lightly than another, who chooses to hold the same amount of capital in money-yielding form.

But of course this draws attention to what is the fatal objection to assessment on income: namely, that the tax would become wholly inoperative as soon as an individual's combined tax rates rose above 20s. in the pound. It would then pay him to withdraw his capital from income-yielding assets, and hold it in cash (or cars, jewellery, pictures, non-dividend-paying stocks, etc.), in which form it will attract no tax. (The skilful investor, hoping for capital gains, might choose to sell each share-holding before the dividend was due, and buy it back as soon as it went ex-dividend.) By so doing he would, above that point, avoid any surrender of his property to the State, even though he would be compelled at the same time to dip into capital to maintain his previous level of consumption. But the object of the tax is not to compel dissaving, but to collect and redistribute property; and in that it would be frustrated just at the point where the large estates come into view. This problem did not arise with the Special Contribution, since it was unexpected; the assessments were on tax-returns already rendered, and no possibility of avoidance arose. But if the tax is annual or even periodic, avoidance must, in the upper reaches, become wholesale.

A capital tax assessed on income would therefore not be a tax on capital at all, but merely a stiffer tax on unearned income; as such it is discussed in the next section. A regular tax which is to fall on capital must be assessed on capital. This raises the

administrative problem of the valuation of private capital – not of individual estates at irregular intervals, as now for death-duties, but of all estates simultaneously, and moreover repeated every few years to keep pace with changes in capital values. It is hard for the layman to judge whether this is practicable – only the Inland Revenue can give a final answer. But such a tax, assessed on property, already exists in Sweden, where the administrative difficulties have not been found insuperable.

If practicable, it would be a useful, if modest, supplementary weapon in the attack on inequality. It would start, like the death-duties, only above a substantial minimum figure; and the rates, since it is only a supplementary measure, need be neither high nor steeply progressive – though they should, in view of the greater inequality from which we start, be higher than the Swedish rates, which rise only from 0.5% to 1.8% of capital. It would have negligible effects on the incentive to save, since the rates are low and it falls not on the margin of new savings but equally on the whole property, and none on risk-taking, since if assessed on capital it does not alter the relative attraction of high (risky) and low (safe) yields. Altogether it is worth more consideration than it has so far received in this country.

### III *A Heavier Discrimination against Unearned Income*

But we can also diminish the relative advantages of property ownership by taxing, not the property itself, but the income to which it gives rise. This could most simply be done by raising the tax on unearned relative to earned income. The principle that a pound of earned income should not be treated as the taxable equivalent of a pound of investment income has been accepted in Britain since 1907, when a deliberate, though slight, differentiation against the latter was embodied in the tax system in the form of 'earned income relief'.<sup>1</sup> This was originally justified by reference to the greater 'precariousness' of earned incomes. But it is clear from the foregoing discussion that the greater security of a property income is only a small part of the advantage which the ownership of property confers; and few would argue that the

<sup>1</sup> A further differentiation has (almost accidentally) grown up since then in the form of superannuation relief.

total advantage was adequately offset by the small degree of differentiation introduced by the present earned income allowance.

The differentiation could be increased either by raising the earned income relief, that is, by increasing the fraction (say to one-third, or even a half) of earned income which is ignored for purposes of tax: or by separating altogether the tax on earned from the tax on investment income, and raising the relative rates on the latter. If the first method were chosen, the opportunity should be taken of abolishing the present upper limit of income beyond which the relief now ceases to operate, as this has little logical justification.<sup>1</sup> If the second, and the rates on unearned income were increased, it would be well, in order to avoid penalising small and medium savings, to raise the rates only above the surtax level, besides preserving the present 'small investment income' relief. But there is nothing to choose in principle between the two methods from the point of view of securing the required increase in differentiation.

The conventional argument against a higher tax on unearned income is that it will discriminate against risk-bearing. The higher the risk, it is said, the higher the yield of the investment, and therefore the higher the liability under a tax assessed on income. The man who keeps his money in the bank will pay no tax; and the investor in gilt-edged escapes more lightly than the investor in riskier, and so higher-yielding, equities. It follows that the tax must tempt the investor to avoid risks in order to minimise his income, and so his liability.

Plausible as this sounds, it is doubtful if in practice high yields are an entirely accurate criterion of the sort of investment towards which we want risk-capital to flow. If we examine the structure of yields on the Stock Exchange, we find two separate influences at work. The first is the degree of risk in the conventional sense – the risk of fluctuations in trading conditions, and hence in profits and dividend disbursements. This risk is notoriously heavy, for example, in the case of commodity shares, owing to the traditionally volatile behaviour of commodity prices; and there are also

<sup>1</sup> Such a step would have the incidental advantage, which was strongly canvassed in the Minority Report of the Radcliffe Commission, of doing something to offset the preferential treatment which, in the upper reaches of income, Schedule D taxpayers now receive against their Schedule E counterparts in respect of business expenses (*v. Cmd. 9474, pp. 393-5*).

manufacturing industries which are faced with particularly unstable markets (e.g. certain consumer-good export industries, or home industries subject to the full rigour of sudden variations in hire-purchase regulations, such as furniture or electrical appliances). It is low in the case of fixed-interest-bearing securities, and of firms faced with a characteristically steady level of demand, such as, for example, banks and insurance companies.

Securities in the former group will show higher yields than those in the latter, and may no doubt become less attractive to the investor if the tax on unearned income is increased. One may concede that on balance this would be a bad thing – though only on balance; a flow of funds into commodity shares may often be desirable, but it is less obvious that we want a heavy investment in hire-purchase companies.

But there is another influence working in the reverse direction. The yield which determines the investor's actions is not solely the current dividend yield, but the current yield plus expected capital appreciation. Thus shares which are expected to appreciate in value often show a low current yield (or even no yield at all), while those with less prospect of appreciation show a much higher current yield. A tax assessed on income would then differentiate in favour of the first, and against the second, type of share. One might argue that this was positively desirable, on the grounds that the low-yielding stocks with good prospects of appreciation – the 'growth' stocks – are characteristically associated with rapidly expanding industries towards which investible funds *should* be moving, such as, to-day, atomic energy equipment, heavy electrical engineering, chemicals, aircraft, oil, and the like. Conversely the higher yields associated with poor prospects of appreciation, or a fear of actual depreciation, are to be found in stagnant or declining industries, such as textiles or breweries, towards which investible funds should not be flowing (at least in large amounts).

At any rate there is clearly a good deal of exaggeration in the talk of an inevitable 'distortion' in the flow of risk-capital. There might be some bad effects – in the case, for example, of unknown or private companies which need to show an exceptionally high return in order to obtain new capital. But so far as the great majority of companies quoted on the Stock Exchange are concerned, the undesirable distortion might be rather negligible.

The real case against the proposal is more fundamental. Not only would it fall haphazardly on different property owners according to how their capital was invested, but, more important, it fails to touch the *non-income* advantages which property confers. No tax assessed solely on conventional income, and no possible degree of discrimination against property income, can offset the differential spending power which the possibilities of dis-saving and capital gains bestow. It is therefore the inadequacy of the proposal, not its recklessness, which calls for criticism. Only if for some inexplicable reason all other measures failed, would this one be worth much bother.

#### IV *The Case for a Capital Gains Tax*

If taxable income is so poor a measure of the true spending power of the property owner, the question arises as to whether the present definition of income for tax purposes is either logical or accurate. Is the existing lack of correspondence between income and taxable capacity inevitable and incorrigible, so that no reform in the sphere of income tax can ever make matters better: or is it partly due to deficiencies in the concept of taxable income?

There is one glaring deficiency, namely the exclusion of capital gains from the definition of income. Income is defined by economists as 'the maximum value which [a man] can consume during a week, and still expect to be as well off at the end of the week as he was at the beginning':<sup>1</sup> that is, the net 'increment of "spending power" or "economic power" in a period . . . the increase in the individual's command over resources in a period'.<sup>2</sup>

On these definitions, capital gains would appear to constitute income. They can be consumed during the week, while still leaving the individual as well off as he was at the beginning of the week (i.e. with his original capital intact). They confer a clear increase in spending power and command over resources. And indeed not only economists, but ordinary investors also appear to regard them as income, and spend them without any sense of running down their capital. They should logically, therefore, be taxed as income, as they have been in the United States for many years.

Moreover apart from considerations of logic and equity between

<sup>1</sup> J. R. Hicks, *Value and Capital* (Oxford, 1939), p. 172.

<sup>2</sup> Cmd. 9474, p. 356.



taxpayers, there is a clear redistributive case for taxing capital gains. They accrue only to those who already own property; and the present distribution of property, as was pointed out in the last chapter, is not only highly unequal, but also, since so high a proportion is inherited, the least defensible aspect of inequality. Thus all the evils inherent in the maldistribution of private capital are magnified by the exemption from tax of the gains to which that capital gives rise, and which still further increase the inequality of purchasing power; and a tax on these gains is therefore wholly to be desired on socialist grounds.<sup>1</sup>

Moreover the quantitative significance of capital gains is, in an expanding economy, very considerable. The value of quoted Stock Exchange securities alone rose by £5,000 millions between 1950 and 1954. No doubt this was the product of an exceptionally strong bull market. But in a full employment economy, the real value of private property may be expected to increase by anything up to £1,000 millions a year.<sup>2</sup> There is no justification for leaving this huge accretion to private spending power untaxed, when incomes from work are treated so severely.

The economic arguments for and against such a tax have been exhaustively discussed in the Radcliffe Report, and will only be summarised here. The usual arguments brought against it are, first, that capital gains which occur as a result of inflation are not real, but illusory gains. This is true; but it does not follow that they should not be taxed. 'If the proceeds of the gain are spent the recipient derives the same benefit as he does in spending taxed income. If the gains are saved, the argument about their illusory character applies equally to all saving, and not merely capital appreciation. If a man regularly saves up a part of his earnings by adding to his savings deposits or paying premiums on a life assurance, it may equally happen that as a result of inflation the real value of his accumulated savings is shrinking. He is in no different

<sup>1</sup> In fact, it would be a tax not simply on the rich, but primarily on the very rich. The larger the amount of property owned, the higher is the proportion held in industrial securities, which characteristically show the greatest capital appreciation. Death-duty statistics show that the proportion of capital held in this form rises from 6% in the case of estates below £5,000, to nearly 50% in the case of estates above £100,000. (American figures also show that capital gains are a major source of large incomes, and that the larger the income, the higher the proportion derived from capital gains. They account for one-third of incomes of \$100,000 p.a. and over, and a half of incomes of \$1,000,000 and over.)

<sup>2</sup> *2*.i.

position from another man who attains the same increase in the money value of his capital as a result of capital appreciation.<sup>1</sup>

Indeed this might be thought to constitute a positive argument in favour of taxing capital gains. The property owner who makes such gains during an inflation thereby receives a relative increase in his spending power as compared with those who own fixed-interest securities, and indeed compared with all those – pensioners and the like – whose incomes are fixed in money terms. If the pre-inflation distribution of real wealth was held to be desirable, then inflationary gains should be taxed simply in order to prevent an unintended redistribution of wealth.

Secondly, it is said that gains resulting from a fall in interest rates are also illusory, since they do not augment the investor's future income. This again may be true, but again is not an argument against taxing the gains. Holders of long-term bonds will still be at an advantage as compared with other savers (e.g. those who hold savings deposits), since in their case the fall in interest is offset by the capital gains on their existing holdings. In any case, what they lose on the swings they gain on the roundabouts; there is no visible long-run tendency for interest rates to decline, and periods of falling rates alternate with periods of rising rates, with no significant change on balance.

But of course a high proportion of capital gains are due neither to inflation nor to falling interest rates, but to the rising profits and dividend payments of private industry. This provides the answer to a third argument against taxing them, that they are irregular and not sought after by the recipient. They are, it is true, less regular than an annual salary or fixed-interest income – but so, if it comes to that, are many work incomes (e.g. those of writers and actors) which are nevertheless liable to tax. But in an expanding economy they will occur, not indeed steadily, but at least with sufficient regularity to be treated as income by the recipients; indeed wealthy people already regard them as a major, even though periodic, element in their total receipts. And it is absurd to say that they are not expected or sought after by the investor; a glance at any broker's investment circular will demonstrate that they are not merely sought after, but commonly provide the primary motive for investment.

The last criticism concerns the prospective yield. It is pointed

<sup>1</sup> Cmd. 9474, p. 366 (Minority Report).

out that the average yield of the American tax has not been large; and the Board of Inland Revenue estimated the likely average yield in Britain, assuming that gains were charged to both income and surtax and that the tax was based on realised gains, at only £75-£100 millions annually.<sup>1</sup> But this estimate was based on a projection of the rate of capital appreciation in the inter-war period – a period which spanned at least one complete trade cycle, and one of the deepest depressions in economic history. Presumably no one now supposes that a 1931-type slump is likely to recur, or that the trade cycle continues in its classical form. On the contrary, all parties are committed to full employment and rapid growth; and estimates based on pre-war trends therefore have little value.

The Minority Report of the Radcliffe Commission has provided what may be a more realistic estimate. Basing itself on post-war trends of industrial production, gross profits and company reserves, it concludes that the annual appreciation of private capital will be of the order of £600-£1,000 millions. On this basis the annual net yield of the tax (i.e. allowing for a consequential decline in the yield of death duties), even if imposed only at income and not at surtax rates, would lie between £160 and £310 millions per annum.<sup>2</sup> This cannot be called a negligible sum.

What effect would the tax have on incentives and economic efficiency? It would tend somewhat, though not sensationally, to discourage consumption and increase savings. Capital gains are often realised in order to be spent, and it is well known that during a Stock Exchange boom luxury consumption is particularly heavy.<sup>3</sup> A tax on realised gains would increase saving both by diminishing the net realised gain to the investor and equivalently augmenting the Budget surplus, and (more doubtfully)<sup>4</sup> by

<sup>1</sup> *u.i.*, for the reasons why the tax must be based on realised gains.

<sup>2</sup> *op. cit.*, pp. 378 seq. The Report also correctly points out that one of the reasons for the low yield of the American tax is that all accrued gains are wiped out when property passes at death, so that a high proportion of gains escape tax altogether.

<sup>3</sup> And conversely, as Lorelei discovered in the film *Gentlemen Prefer Blondes*:

‘He’s your guy when stocks are high,  
But beware when they start to descend:  
It’s then that those louses  
Go back to their spouses –  
Diamonds are a girl’s best friend.’

<sup>4</sup> Because the main effect might be to discourage switches between shares rather than realisations for spending.

encouraging investors not to realise (and spend) their gains so rapidly, but to allow the increase in the value of their property to accumulate as savings.

But it must clearly have an adverse effect on the individual investor's willingness to take risks, which now depends partly on the hope of tax-free capital appreciation. The effect on individual risk-bearing, however, cannot be treated in isolation. The effect on companies must also be considered. The present exemption of capital gains from tax causes Governments, for fear of the social and economic consequences of large tax-free gains, to take measures directed against companies and logically designed to restrict the extent of such gains. This is part of the rationale of heavy corporate taxation, the differential tax on distributions, and generally of measures to limit dividends. These may well have *some* adverse effect, though the matter has been ridiculously exaggerated in the post-war years, on entrepreneurial decisions about expansion (both by reducing the internal funds available, and by raising the effective cost of making new issues). But the introduction of a capital gains tax would permit a reduction in the level of corporate taxation (or, if it were preferred, in the rates of taxation on earned incomes), and on balance the effect on risk-bearing and economic growth might be beneficial.<sup>1</sup>

Nevertheless, the individual investor's attitude to risk-bearing is of some importance (though probably less in relation to the Stock Exchange than to the small entrepreneur, who might be discouraged by a very heavy rate of capital gains tax, especially under conditions of inflation, from building a business up, and then selling it in order to move on to bigger things). This is not an argument for doing nothing; but it is an argument against aggregating gains fully with ordinary income, and so taxing them at the full progressive rates of surtax as well as income tax. This applies with particular force inasmuch as the gains, accruing as they do largely to the higher income groups, would often attract exceedingly high marginal rates of tax, rising to 18s. 6d. in the pound. Such rates would not only have too adverse an effect on risk-taking, but might also, by tempting property owners to

<sup>1</sup> As a method of limiting the gain to shareholders, a capital gains tax is of course much more equitable than high business taxation, *since it strikes equally at all gains*. Company taxation, on the other hand, is wildly crude and haphazard as between individual gains. Moreover, capital gains arise on other forms of property besides industrial equities.

dissipate their capital, have harmful results on savings. Gains should therefore be liable for income tax only, and not for surtax. The tax would then be a flat-rate one above the point where total income (including gains) became liable for the standard rate.

There is another reason why the tax should be at a flat, and not progressive, rate. If confined, as it must be for reasons explained in the next paragraph, to realised gains, it taxes in one year a capital appreciation which may have occurred over several years. The investor holding a number of easily marketable securities could easily, by timing his realisations, avoid an excessive burden of marginal taxation in any one year. But certain types of investor might be unable to avoid a bunching of realised gains in one year; and a progressive tax would fall on them with undue severity. This would arise, for example, in the case of a private business sold as a going concern, or in any case where the capital assets were not easily marketable, and could be disposed of only in large blocks.

The tax must be based on realised and not paper gains for overwhelming administrative reasons. There could be no question of an annual valuation of capital assets of such a degree of precision that exact changes in their market value over the year could be fairly computed. Moreover it makes no difference to the yield in the long run whether the tax is levied on realised or accrued gains, since if gifts and inheritance are treated as realisation, as they should be, the two must amount to the same thing over the taxpayer's lifetime – though of course the difference in timing might be very significant for the individual (e.g. for the man who neither switched nor over-spent his income – for him the tax would be simply a second death-duty).

On more detailed points, there seems little to be said for making a distinction, as the American tax does, between short-term and long-term gains. Realised losses should be allowed as an offset against realised gains (though not against other income), with provision for carrying forward. To reduce the administrative difficulties the tax should be limited, at least initially, to gains arising out of the sale of businesses, stocks and shares, and real property. There should be an exemption limit to exclude small gains and small amounts of property; and gains arising out of the sale of an owner-occupied house should be exempt if the proceeds are used to buy another house.

## THE DISTRIBUTION OF WEALTH

There is no reason why we should boggle at a capital gains tax. It is, as experience in the U.S. and elsewhere shows, perfectly practicable; though in the immediate post-war years, when the Revenue was under-staffed and over-worked, the administrative difficulties seemed, naturally enough, forbiddingly formidable. The yield would probably never be enormous; but the case for it, on grounds both of equity between individuals and equality between classes, is overwhelming.<sup>1</sup>

### v *The Concerted Attack on the Maldistribution of Wealth*

The measures proposed in these two chapters, taken together, would greatly diminish inequalities of wealth, especially when combined with a policy for industry, to be discussed in later chapters, designed to prevent a large rise in share-values from occurring in the first place.<sup>2</sup> None of them, by itself, will change the face of society overnight, as would a huge capital levy. But I have already argued that this would not in any case be a sensible way to proceed. And taken in conjunction they would steadily carry us forward towards a reasonable and equitable distribution of wealth.

I must underline, in conclusion, in an attempt to forestall (the probably inevitable) misunderstanding, that all these measures are designed to equalise wealth only by striking at property, and especially inherited property, and only by striking at large amounts of property. None of them affects earned incomes; and all are subject to exemption limits which would effectively exclude small and medium savings. Indeed to the extent that they gradually eliminate this central and most indefensible cause of inequality, the maldistribution of property, it will become possible both more actively to encourage the growth of small property, and to take a more favourable attitude towards the taxation of

<sup>1</sup> Since the manuscript of this book was substantially complete, Mr. Kaldor has published his important proposal for shifting from an income to an expenditure basis of taxation, at least for surtax payers (*An Expenditure Tax*, Allen and Unwin, 1955). This would achieve, a good deal more efficiently, many of the objectives discussed in this chapter, besides having excellent effects on savings decisions. But any firm verdict must wait on an exhaustive discussion by the experts of the feasibility in practice of such a tax.

<sup>2</sup> v. Chapters XVII and XX.

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incomes from work;<sup>1</sup> the more so if other measures designed to remove the rent element in gross work-incomes are also successful. Socialists have no desire to penalise small savings, or enterprise and initiative; their aims are social justice and genuine equality of opportunity. Once these are achieved, and the dead hand of inheritance removed, we shall more easily be able to lighten the load of taxation on incomes from work, and restore to individual effort and enterprise some of the rewards which the unequal distribution of property now forces us to tax away.

<sup>1</sup> For instance, one of the objections to-day to reducing the standard rate of income tax is that a significant proportion of the benefit accrues to large property incomes. This objection would disappear if property ceased to be a major source of inequality.

## XVI

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### POWER AND PRIVILEGE IN INDUSTRY

#### I *The Status of the Worker*

THE last two distance factors to be discussed are inequalities in the distribution of power, and in non-pecuniary occupational status. These factors, and especially the first, as was made clear in Chapter VIII, have many different aspects, political, economic, and sociological.<sup>1</sup> But from the point of view of socio-economic reform it is their incidence in large-scale industry which is most significant, on account both of the numbers of people affected and the still powerful influence of work-relationships on social attitudes.

It was suggested in Chapter I that the changes of the last two decades – the seller's market for labour, the greater strength of both the political and industrial Left, and the internal revolution within industry – had enormously improved the position of the worker relative to the employer; and that the latter now neither could, nor commonly tried to, act in an arbitrary or authoritarian manner. Nevertheless there are still great disparities within industry, and perhaps especially in large-scale industry, of status, privilege, and power.

The matter is sometimes argued, by writers such as Mr. Peter Drucker, in rather wide sociological terms. The 'mass-production world revolution', it is said, has actually depressed the worker's technical status at work. The man on an assembly-line has no individual function or responsibility comparable to those of the craft worker in pre-industrial days. Indeed he can scarcely be called a 'producer' at all. 'It is only a very small minority of

<sup>1</sup> *v.* Chapter VIII, Section V.



artists and professional men who can produce at all by themselves. All the others are dependent upon access to an organisation to be productive.'<sup>1</sup> In the extreme case of repetitive work, the worker has become 'just one more sloppily-designed machine'.<sup>2</sup> And this decline in his personal responsibility at work has coincided with an increase both in his educational maturity, and in the range of his responsibilities outside work; the result is a rather glaring contrast between his status in the hours of leisure and the hours of work.

It is hard to believe that there is no exaggeration here. The mass-production revolution may have brought the assembly-line, but it has also brought, if we look at the labour force as a whole, a marked decline in the proportion of unskilled labour in the total. In the U.S. it now constitutes less than 20% of the labour force, while the semi-skilled have risen to 22%, and skilled workers, clerks, and professional personnel to 42%. Automation, requiring as it does a very high (almost 100%) ratio of skilled to unskilled labour, will accelerate this trend; and the typical worker of the future will be not the robot figure on an assembly-line of Chaplin's *Modern Times*, but the highly-skilled instrument-reader and repair-worker in a fully automatic factory.

However that may be, there is no disputing the second consequence of large scale: the tendency for decisions to be centralised, and power concentrated, in fewer and fewer hands. The result is a degree of 'remote' power (to use the terminology of Chapter VIII), reflected lower down the scale in 'face-to-face' power, which is much greater than would exist in a society of small-scale units.

The case for redistributing this power, and transferring a greater share of it to the workers at the expense of other groups in industry, might be based on either of the two main arguments for more equality postulated in Chapter IX: social contentment or social justice.

## II *The Causes of Industrial Discontent*

If we argue the matter in terms of social contentment, we enter a difficult sphere; for not only do the experts disagree in their

<sup>1</sup> *The New Society* (Heinemann, 1951), p. xvii.

<sup>2</sup> *The Future of Industrial Man* (Heinemann, 1943), p. 75.

diagnosis, but all the suggested reforms are open to exceptionally strong practical objections.

The diagnostic difficulty emerges as soon as we make comparisons between countries. I suggested in Chapter IX that we retained a degree of bitterness, sullenness, and resentment in industry which appeared surprising in the light of the absence of such traditional provocations to discontent as falling wages or unemployment. And we find that other countries largely escape this resentful atmosphere, despite having an organisation of large-scale industry very similar to our own; they do not, that is, have significantly more nationalisation, or industrial democracy, or workers' participation. This is the case both in Sweden, where industrial relations are unusually harmonious and strikes a rarity, and in the U.S.A., where, although the Unions are more militant than our own and disputes more violent, there is much less underlying, nagging class resentment and consciousness of irreconcilable conflict – much less hostility, for example, to high profits or even dividends. And the contrast is reflected in the fact that only in Britain of these three countries is there any sustained pressure for major industrial change, whether by nationalisation or workers' control.

In the light of the similar industrial and ownership patterns prevailing in these other countries, it is hard to believe that the contrast is not partly to be explained, as I suggested in Chapter IX, by their greater degree of social equality.<sup>1</sup> They have less sense of conflict because the worker feels there is a fair opportunity of rising into the ranks of management: because he does not suspect the boss of being boss on account of nepotism, or lineage, or inherited wealth: because he does not feel himself socially inferior to the manager – after all, he too drives to work in a car, and has even had much the same education, and is not marked off by a wholly different accent or style of life: and lastly because the management actually turn up to work at the same time, and claim fewer social privileges simply for being 'staff' as opposed to 'labour'.

This point is particularly important. Non-pecuniary status privileges are exceptionally widespread in British industry; and their persistence acts as a constant irritant. They can hardly all be

<sup>1</sup> It is also partly to be explained by their greater success in extruding Communist influence from their labour movements.

justified on grounds of discipline or incentives, since they are so much less conspicuous in American firms whose efficiency is beyond dispute. The contrast is shown most clearly when an American firm, using American managers and supervisors, embarks on an enterprise in Britain. The construction of the Esso refinery at Fawley is a well-documented case in point.<sup>1</sup> The report on this enterprise refers to the 'minimum stress on the symbols of inequality of status between supervisors and men'. The American staff kept the same hours as the men, 'mucked in' whenever it was necessary, treated the men as equals, and showed no trace of the snobbery so prevalent here amongst supervisory and black-coated staff. The manifest absence of social barriers, so far from prejudicing good order and discipline, appears to have been a major cause of good relations, and consequently of greater efficiency.

This status inequality calls for action on several different fronts. It can be lessened, indirectly, by social service and taxation policy.<sup>2</sup> It will in practice be weakened as the educational and other changes discussed in earlier chapters diminish the natural class sentiment now so strong in Britain, so that the managerial classes lose their present ingrained assumption of social superiority. And it can be weakened by Trade Union action. This requires that the Unions should steadily widen the agenda of collective bargaining, and increasingly direct their pressure, as they already do to some extent, towards 'fringe' benefits designed to equalise non-wage privileges: pension schemes, longer paid holidays, sickness benefits, and the like. The culmination will no doubt be to eliminate the ultimate social distinction between wage and salary, and at the same time the worker's greater insecurity, by means of the guaranteed annual wage.

But if this thesis is correct, that the deeper industrial resentments in Britain are not wholly due to causes internal to industry itself, but are partly a symptom of social inequality – if, that is, the orientation of these resentments towards work and production conflicts is partly a process of psychological transference or rationalisation: then the cure will be a long-term process, and will depend on our success in implementing the wider egalitarian measures discussed in earlier chapters.

<sup>1</sup> *v. Construction of Esso Refinery, Fawley*, British Institute of Management, Occasional Papers No. 6, 1954.

<sup>2</sup> *v. Chapter VII, Section VII.*

Yet there are also causes internal to industry. Another marked difference between Britain and the U.S. is the greater attention paid in America to the whole question of labour relations and personnel management. This is treated as a central and specialised aspect of the management function, and is studied much more seriously and systematically than in Britain. The result is that management is, on the average, appreciably more imaginative, progressive, and enlightened in its labour policies; and relations are better in consequence.

Furthermore, workers in America are less suspicious of high profits and dividends, because they feel more certain that wages will obtain a generous share of any increase in productivity. And as a matter of fact they are right; wage increases are both frequent and absolutely large owing to the rapid rise in productivity, and the high-wage ideology prevalent even within management itself. But there is a further important influence. Ever since the famous 1950 U.A.W.-G.M. contract, Unions have increasingly asked, and management conceded, that wage increases should be pledged for some years ahead on the assumption of rising productivity (and often also pledged in the event of a rise in the cost of living). The worker therefore has less suspicious apprehension lest he be cheated out of the fruits of his labour; and being more certain that his own interests are well looked after, he is less hostile to the share of profits going to other groups.

### III *The Importance of Local Management and the Unimportance of Ownership*

The greater industrial discontent in Britain does not, then, seem directly traceable to our industrial structure, so much as to our social system generally, the quality of management, and the absence of an *explicit* high-wage ideology. The significance of the management factor, and the lesser importance of the actual structure, are confirmed by the extraordinary variations in morale amongst British firms of broadly the same size and organisation.

Within the general picture, we have a number of firms enjoying excellent relations and a genuinely co-operative spirit between management and labour. This occurs where the management is

both efficient and enlightened, and where in consequence not only are wage-rates above average, welfare facilities good, and the firm technically efficient and amply equipped with modern plant; but also (and probably more important) the personnel managers are highly trained, the supervisory grades competent, the workers' representatives given ample information about future plans and past performance, and an effective channel exists for raising grievances. In such firms morale is high even though dividends are generous, discipline strict, and formal joint consultation often absent.

These are essentially the firms which, like most American enterprises, pay the most careful attention to enlightened personnel management. A famous case-study was provided by the Fawley refinery already referred to. There was no attempt here at formal joint consultation or participation in management; discipline was firmer than is usual on a British site; the functions of shop-stewards were curtailed below their normal; and even wages and welfare facilities were not significantly better than the average.

Yet labour relations were exceptionally harmonious; and the reason lay in the enlightened labour policy of the management. There was an unusually high degree of co-operation with the Unions: a smooth-working machinery for raising complaints: a marked willingness to settle grievances quickly and on the spot: and a very high number and quality of supervisors who 'mucked in' with the men, worked the same hours, were always accessible, and took constant trouble to ensure the widest possible dissemination of information about what was being done, and why. Labour relations were, in other words, given the highest priority by a progressive and intelligent management, with the result that the worker felt himself to be a respected and responsible member of a team despite the absence of any formal joint machinery.

It is clear, then, that within any given framework, greater or lesser harmony is largely a function of the quality of management.<sup>1</sup> Where confidence in the management exists, and above all confidence that it will listen and attend to grievances, formal changes seem to be unnecessary. Where confidence does not

<sup>1</sup> One unfortunate consequence (though of course there are advantages also) of industry-wide wage negotiations is that the Trade Unions are less interested in the quality of local management than they would be under a system of plant negotiation.

exist, resentments occur. But it follows that these resentments, being due to essentially local frictions, may not be curable by action at the national or industry level – by nationalisation, or dividend limitation, or legal changes in the structure of industry. These may have an influence on Trade Union attitudes also at the national or industry level, and hence might be relevant, for example, to wages policy. But they will not have much influence on local tensions where, as is often the case, these are caused by managerial shortcomings.

Thus nationalisation is no panacea for bad relations. It has, it is true, removed particular grievances in particular cases, notably in the coal industry. But nobody could claim that morale in the public sector was uniformly high, or even better on the average than in good private firms; and in two industries, coal and the railways, it is quite exceptionally low.<sup>1</sup> This appears again to be mainly a matter of the calibre of management. These two industries were never famous in this respect; and even under public ownership they are well below the average for industry as a whole.

Indeed there are some features of nationalisation, as so far practised, which may be positively bad for industrial relations. One is the pressure towards centralisation, especially evident on the railways, where a highly centralised and uniform structure has replaced the previous regional traditions and variations. Another is the tendency to delegate responsibility for labour policy to an ex-Trade Union member of the Board, who has no experience or expertise in this specialised branch of management. A third is the generally low level of salaries as compared with private enterprise, and the correspondingly lower calibre in the middle ranks of management.

At any rate there is little reason to expect nationalisation to produce an automatic change for the better; though of course it may or may not be desirable on other grounds.<sup>2</sup> Does this mean, then, that the complaints of shop-stewards and working-class militants about dividends, bonus shares, and private profits have no significance? This must certainly often be the case, for they do not occur in well-managed private firms, whatever the level

<sup>1</sup> *v.* the 'Studies in Nationalised Industry' produced by the Acton Trust in 1952-3, and Hugh Clegg, *Labour Relations in London Transport* (Blackwell, 1950).

<sup>2</sup> *v.* Chapters XXII and XXIII.

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of profits and dividends; and they often continue just as vehemently under nationalisation, though now articulated in different language. They must therefore often be a rationalisation of purely local discontents (a tyrannical foreman, a failure to consult, or general inefficiency).

Where they are not, they appear to reflect one of the other two factors mentioned above – the persistence of obvious class inequality, or a suspicion that wages are not rising as fast as they should. Neither of these will necessarily be removed by nationalisation. As Chapter III made clear, the pattern of ownership is not now a major determinant of the social structure as a whole; while the suspicion that wages are not getting a fair deal can, as the case of the railways shows, only too easily persist under public ownership.

### IV ‘Participation’ and Joint Consultation

The fact that morale so often depends on the quality of local management is also a difficulty when we turn to consider the proposals sometimes made by sociologists and industrial psychologists. There is the further difficulty here, it is true, that the suggested solutions have undergone rather radical changes over quite a short period. It was only comparatively recently that low morale was attributed to insufficiently subtle and detailed methods of incentive-payments: or to the lack of welfare or recreational facilities: or to poor lighting, or the wrong humidity, or the ceiling not being painted the right colour: or the absence of ‘music-while-you-work’. All these prescriptions are now out of fashion; and the emphasis is all on giving the worker a sense of status and function, on encouraging the group rather than the individual, and on ‘participation’.<sup>1</sup>

It is not easy to avoid a certain irritation when one hears the word ‘participation’. Not only has it become a catch-phrase, bandied about as though it were a nostrum for every social evil, but those who preach it hardest appear to think that collective is always superior to individual action, and that we must all be herded into participating groups of one kind or another. ‘Man

<sup>1</sup> For a reasonably moderate statement of this approach, r. Brown, *The Social Psychology of Industry*.

cannot find his fulfilment in selfish isolation. . . . He may limit his creative activities to his home and his garden, but in so doing he denies his responsibilities within his own community, and indeed his concern with the whole of mankind beyond it. With this denial, there comes, inevitably, a stunting of his personality; a drying-up of the wells of human sympathy.<sup>1</sup>

I have already suggested that there is another side to this – that membership of a group can also stunt the individual personality, since groups themselves often develop distinctly undemocratic and selfish characteristics.<sup>2</sup> In any case, we surely do not want a world in which everyone is fussing around in an interfering and responsible manner, and no one peacefully cultivating his garden. Of course this inevitably pains some socialists, as it did the old Chartist who, touring the North of England in 1870, found the material condition of the workers much improved, but ‘noticed with pain that their moral and intellectual condition had deteriorated. . . . In our old Chartist time, it is true, Lancashire working men were in rags by thousands; and many of them lacked food. But you would see them in groups discussing the great doctrine of political justice or the teachings of socialism. Now you will see no such groups. But you will hear well-dressed working men talking of co-operative stores, and their shares in them, or in building societies. And you will see others, like idiots, leading small greyhound dogs, covered with cloth. They are about to race, and they are betting money as they go.’<sup>3</sup>

And why not, indeed? If one believes in socialism not on paternalistic grounds, but as a means of increasing personal freedom and the range of choice, one does not necessarily want a busy, bustling society in which everyone is politically active, and spends his evenings in group discussions, and feels responsible for all the burdens of the world. As Bertrand Russell once wrote, ‘the sphere of individual action is not to be regarded as ethically inferior to that of social duty. On the contrary, some of the best of human activities are, at least in feeling, rather personal than social. . . . Prophets, mystics, poets, scientific discoverers, are men whose lives are dominated by a vision. It is such men who put into the world the things that we most value, not only in religion, in art and in science, but also in our feeling towards our neighbour,

<sup>1</sup> *Socialism: A New Statement of Principles* (Socialist Union), p. 35.

<sup>2</sup> Chapter V, Section IV.

<sup>3</sup> Quoted in Beer, *op. cit.*, Vol. II, p. 221.



for improvements in the sense of social obligation, as in everything else, have been largely due to solitary men whose thoughts and emotions were not subject to the dominion of the herd.<sup>1</sup>

However, most of us are not prophets or mystics; and we may at once concede that people working in an impersonal mass organisation certainly want to be consulted and respected, and to feel they matter, and possibly, though more doubtfully, to 'participate' (in some sense) in managerial decisions. It is clear that the element of consultation, in particular, is crucial, and an essential condition of the confidence mentioned above. A great many strikes and much resentment would be avoided if management, not necessarily set up an elaborate machinery for joint participation, but took the workers into its confidence, gave them information, and ascertained their views.

But unfortunately none of this can be imposed from above. In the good firm, it will occur automatically as part of an enlightened management policy, whether dignified as formal joint consultation or not. In the bad firm, nothing will change simply because an elaborate consultative machinery is set up.<sup>1</sup> The managerial or worker attitudes which are the root of the trouble will still persist; and the failure of the new machinery will become simply another source of grievance.

Effective consultation will spread only as a by-product of a gradual improvement in the quality of management – and, a very relevant point, of a gradual change in attitude on the part of the Trade Unions. The failure is by no means always the fault of management, but often of Union indifference, if not hostility, based on a fear lest consultative committees may usurp the negotiating function which is seen as the basis of Trade Union power. In Sweden, for example, 'joint enterprise councils' are widespread and effective. But they work only because *both* sides in industry take an enlightened interest in 'enterprise economics', and therefore take the whole business seriously. This is a very desirable outcome, and the industrial atmosphere is better in consequence. But industrial contentment cannot be increased by edicts from Whitehall.

The conclusion is that the unequal distribution of power in industry, in the sense of a failure to consult, is certainly an

<sup>1</sup> c. Chapter V, Section IV, for a discussion of the problem of eliciting the 'right', as opposed to the 'wrong', group attitudes.

indirect cause of resentment; but it is not the only one, nor is a major structural or legislative change a plausible solution. *Prima facie*, it appears that greater industrial contentment requires three things. First, an attack on social inequality and class privilege generally, partly within industry (in the matter of non-pecuniary status), but mainly in spheres outside. Secondly, a more effective assurance to the worker that he is not being 'done out' of wage increases which are his due; this can be achieved partly by more imaginative wage-bargains on the industry level, and perhaps occasionally in individual firms by collective production bonuses. Thirdly, the spread of more enlightened management and Union policies, of which one aspect, namely more effective consultation, will represent a genuine transfer of power.

### v *Industrial Democracy and Joint Management*

But structural changes designed to redistribute power, whatever their effects on morale, might still be justified on grounds of justice.

Historically, the aspiration towards a 'juster' organisation of industry has been enshrined in the demand for industrial democracy or workers' control. This has a long history in the Labour Movement, stretching back to Owen's ambitious Operative Builders' Union of 1832, and reaching a climax in the stormy decade before the First World War when even revolutionary syndicalism briefly caught the imagination of the British Unions; while Guild Socialism, a more prudent and pacific version, took a strong hold on the minds of younger socialist writers. But that was the high-water mark; and the tide receded rapidly after the First World War. Syndicalism looked less and less practicable with the growth of scale, and less and less desirable with its blunt exclusion of the State and the consumer. Guild Socialism deteriorated; Whitleyism never took root outside the public service; and the final blow came in the early 1930s when the Labour Movement itself, after a protracted debate, voted for the Public Corporation with no direct workers' representation on it.

If we wish to revive the issue, we shall not derive much help from the old literature. Guild Socialism, for example, as was pointed out in Chapter IV, was ideologically rooted in a theory

of 'wage-slavery' which has no relevance to present-day conditions, combined with a deep mistrust of political action characteristic of the pre-1914 decade; while on the organisational plane the notion of 'self-governing guilds' has been outmoded by technological change. The whole question needs to be thought out afresh.

The matter is often expressed in terms of a demand for 'democracy'. Unfortunately this is not, as East-West diplomatic notes make clear, an unambiguous concept. It describes neither a formal abstraction nor a single set of observable phenomena, but is a word loosely applied to a number of different theories of the State, of actual political movements fighting for particular aims, and of diverse historical political systems. Its connotation has therefore varied through time; and even within the 'Western democracies' to-day, different people would give different answers if asked to distil the essential meaning of the word into a policy which could then be applied to industry.

Thus some would stress simply the rights of free speech and criticism. Others would stress equal rights for all citizens, which might point merely to equal opportunities for promotion: or respect for minorities (which might be held to require the demise of the closed shop!); or active participation of citizens in government, which would point to a large extension of joint consultation: or the rule of law: or the existence of a legal opposition – a condition already fulfilled in industry by the Unions: or government by consent, requiring simply joint consultative machinery: or government by the people through elections, requiring some much more elaborate reform. Clearly no unique meaning can be attached to the word. Nor, even if it could, would it necessarily be either logical or sensible to apply it by analogy from political government to industry.

But let us consider the most popular recent version of the demand for industrial 'democracy': participation in management by the Trade Unions.

Joint management may mean anything from the elaborate proposals of the Union of Post Office Workers for a Joint Administrative Council appointed equally by management and the Unions,<sup>1</sup> to the less ambitious proposals heard at every Labour

<sup>1</sup> *c. Consultation or Joint Management?* (Fabian Tract 277, 1949). This scheme is not unlike the *Mitbestimmung* experiment in Germany, under which, in the coal and

Conference for the direct nomination by the Unions of representatives on Nationalised Boards. But the essence of the idea is always the direct representation of the official Trade Unions on the Board, and their active participation in the management function.

The central issue of principle is therefore whether the Unions should give up their independence in order to participate in management. To reject joint management, the argument runs, implies a continued acceptance of a 'two sides' conception of industry, with the authority of management wholly unimpaired, and the Unions still limited to their old concern with wages and conditions. This is not merely a betrayal of the hopes of the socialist pioneers, but a denial of democracy, of the ideal of an industrial fellowship with all ranks sharing in control, and of the basic right of workpeople to have a voice in the determination of their industrial destinies.

Now no one denies this right; but it does not necessarily point to Trade Union participation in management. As was shown above, democracy is a rather ambiguous concept, and the mere use of the word does not point to anything specific at all. The democratic rights of workers might be fulfilled in a number of different ways.

Furthermore, the concept of 'two sides' in industry, and of divergent interests generally, is not a reactionary or obsolete one, but merely a statement of the obvious. It is, for example, quite specious to argue that there is no fundamental conflict between the workers in an industry and the rest of the community, on the grounds that the workers *are* the community. They are no such thing; and their interests obviously diverge from those (for instance) of pensioners or salaried persons when it comes to questions of the level of either money or real wages. And even if there were no conflict between all workers and all consumers, inasmuch as both equalled the whole community, there would still be a conflict

steel industries at least, the Boards consist of equal numbers of management and workers' representatives, the latter partly nominated by the Unions. But of course the background and motives were quite different in Germany. The Unions were not concerned, when they pressed for *Mitbestimmung*, to raise the status of the worker or to establish industrial democracy, but to increase Trade Union control over large-scale industry. They remembered the political role played by heavy industry in the days of Stinnes and Thyssen; and their main anxiety was to diminish the politico-economic power of big business in post-war Germany. This particular argument obviously applies less strongly in Britain.

between workers in any one industry and workers generally, and between workers and employers in the same industry.

It is this last point which is often denied. It is said, for example, that the whole of industry now has one common objective, namely higher production, and that co-operation in achieving this objective should replace the old opposition. Now higher production is obviously a common objective, which justifies, indeed demands, a large measure of co-operation. But because two groups have one common interest, it does not follow that all their interests are identical; and between management and men there remain other conflicting interests, which this one common interest cannot wholly over-ride. These are most obvious in the sphere of wages, where there is a clear short-run conflict over the division of the final product and/or the level of prices. But they also emerge in other spheres, such as the question of discipline, the role of shop-stewards, the introduction of new machinery, the closing down of a plant, the numbers to be employed; there may be short-run conflicts of interest over all these matters, even though in the long run both sides have the same interests. Moreover there are many decisions affecting the workers which have nothing to do with higher production, but where interests are clearly not identical; this applies to all the non-pecuniary privileges mentioned earlier in the chapter.

There will thus always be potential conflicts between management and labour. The two sides exist, and must to a large extent remain two sides; and the workers' side must have an untrammelled Trade Union movement to defend its claims. These are harsh facts which cannot be spirited away by moral rearmament touring troupes, or luncheons of progressive businessmen, or syndicalist castles in the air. If the Unions were to abrogate their independent role and leave the workers without proper representation, it would be to King Street, and not to Caux, that the latter would turn.

Given that the two sides exist, there is thus some sense in which the management plays the role of government, to which the corollary is the need for an opposition to enforce popular control over policy, and to protect the rights of the worker. It is this opposition role of the Unions which Mr. Clegg has stressed in his important book *Industrial Democracy and Nationalisation*.<sup>1</sup> This does

<sup>1</sup> Blackwell, 1951.

not rule out joint consultation and co-operation at the plant or workshop level. But when we are considering the large organisation – the multi-plant firm or the whole industry – the role of opposition is the essential guarantee of democracy; and it is in order to carry it out effectively that the Unions need to remain independent. They may well – indeed they must<sup>1</sup> – exercise a growing *influence* on management. The more influence they have, the more effectively they carry out their role; and an extension of this influence will, in practice, prove the most direct way of extending the democratic ‘right of workpeople to have a voice in the determination of their industrial destinies’. But the influence must be exerted from outside the managerial structure, and must not be allowed to destroy the Unions’ essential opposition freedom.

It is sometimes said that the opposition function is now unnecessary, in view of the large transfer of power which has occurred towards the wage-earners. This is an exaggerated view. A transfer of power has, it is true, occurred on a momentous scale. But this does not mean that management has lost all power, and will automatically grant any wage-increase which seems reasonable, or at once submit, without the need for pressure, to other demands mentioned earlier in this chapter. Business executives (whether public or private) are certainly not ready to surrender all along the line, or settle conflicts automatically in favour of the workers. Even in a nationalised industry, where private profit is not at issue, management will stiffly resist wage claims in order to avoid the odium of a deficit or a price increase; on the railways, in particular, only the stubborn opposition of the Unions has kept wages at a socially tolerable level.

The increased power of the Unions is not an argument for their ‘joining the government’, and participating in management, for the basic reason that it depends in the last analysis on their doing no such thing.<sup>2</sup> This is because it rests finally on the threat of a withdrawal of labour, on the lesser threat of an awkward disturbance to production by (e.g.) a ban on piecework or overtime, and on the indirect but still powerful threat of vicarious pressure through the government of the day. None of these final sanctions could be easily applied by a body enmeshed in, and committed to,

<sup>1</sup> *v.* next section.

<sup>2</sup> Which of course is why one should not press the political analogy too far.

the responsibilities of management; and the power of the Unions would be gravely impaired if they ceased to be an external, independent force, freely able to choose their tactics, without too many binding commitments. Thus the extent of their power, so far from requiring logically that they should 'enter a coalition government', demands on the contrary that they should not.

Even in the more social-democratic climate of to-day, therefore, the divergence of interest and the need for an opposition remain. And of course this means that the practical and technical objections to Union participation in management are overwhelming. It was these which underlay the conclusion of the T.U.C. 1944 Report<sup>1</sup> that Union officers appointed to Nationalised Boards should resign their Union posts in order to avoid an irreconcilable clash of loyalties – to Union members on the one hand, and the Board and the community on the other – under the strain of which they would become both bad workers' representatives and bad executives, with everyone worse off in consequence.<sup>2</sup> If there are to be workers' representatives on the Boards of industry, they should be chosen not by the Unions, but directly by the workers in each firm.<sup>3</sup>

### VI *The Case for High-level Industrial Democracy*

If we reject joint management, we are left so far with three minimum conditions for a reasonable distribution of power and status within industry.<sup>4</sup> First, a more equal distribution of non-pecuniary privileges, and less social gap between staff and labour.

Secondly, effective consultation at the point of production, both in order to diminish and equalise face-to-face power, and because it is obviously just that the worker should be consulted about matters which determine his working life and conditions. This would improve contentment as well as justice; but, as was pointed out in Section III, it is not something which can be

<sup>1</sup> *Interim Report on Post-War Reconstruction.*

<sup>2</sup> The classic example of such a clash of loyalties, and of the harmful effects which follow, is the Dock Labour Board.

<sup>3</sup> c. next chapter for a discussion of this possibility.

<sup>4</sup> I am ignoring, of course, all the wider influences discussed in Chapter I – conditions in the labour market, the Government's labour policy, the psychology of management, and so on; though these may have more effect on the distribution of industrial power than the internal factors discussed here.

imposed from above, but must come gradually with a general rise in standards of enlightenment.

Thirdly, the maximum Trade Union influence, though exercised from outside and not inside, at the national level of the industry, so that 'remote' decisions are taken only after consultation with the workers' representatives. In some industries 'high-level democracy' of this sort already exists to a limited extent – in coal, for example, where the N.U.M. exerts a strong influence on the decisions of the Board, or in boots and shoes, or cotton textiles, where a high degree of co-operation prevails.

But I believe that an extension of this 'high-level industrial democracy', which in turn means a great enlargement of the range of Union interests, is one of the most important reforms now needed in British industry. I have already suggested certain respects in which the Unions should extend their interests – e.g. in the direction of greater attention to non-wage privileges, and a more ambitious perspective over wages and productivity.

But these extensions still fall broadly within the scope of the traditional British collective bargain; and it is this scope itself which is, under contemporary conditions, too restricted. It certainly could be widened, in the sense that the Unions have the power, after the changes described in Chapter I, to compel management to discuss a much larger range of subjects. And it is significantly wider in other comparable countries. Thus both the Swedish and American Unions take a much closer interest in, and wield much more influence over, questions of managerial efficiency, the industry's long-term development plan, the relation between wages and prices, the factors affecting productivity, the conditions under which automation shall be introduced, the size of the industry's labour force, and generally the economic problems and prospects facing their industry.

There is a faint, but still very faint, trend in this direction in Britain; and certainly many top Union leaders privately hold both strong and enlightened views on all these subjects. But generally the Unions have contracted out of responsibilities other than the traditional one for wages and conditions; or, rather, they have not widened their interests and influence to a degree in any way commensurate with the increase in their economic power. And indeed they scarcely could take on these additional interests without considerable changes in their own internal organisation –



e.g. an increase in the number (and probably the salaries) of their full-time officials, a large expansion in their research staffs, and perhaps a new attitude to the employment of University graduates. But if they were willing to accept this objective of 'high-level industrial democracy', the result would be a more significant transfer of economic power than any which could be accomplished by structural or legislative reform.

Of course they must stop, for the reasons set out in the previous section, at the point where they begin to lose their independence, or feel unable to press the workers' claims wholeheartedly, or if they seem in danger of being saddled with more responsibility than power. But the 'opposition' argument need not, as the experience of other countries shows, exclude a strong constructive influence at the decision-making stage. This would certainly increase social justice, and might possibly, through the knowledge that 'remote' decisions were now taken only after consultation with the Unions, also diminish suspicion and resentment.

## XVII

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### THE STRUCTURE OF PRIVATE INDUSTRY

#### I *The Functionless Shareholder*

THREE further questions relating to status and power in industry remain to be considered. Would either social justice or contentment be improved first by a reform of company law: secondly, by an extension of profit-sharing: thirdly, by statutory dividend limitation?

There are two schools of thought on the subject of company law. On the one hand, City writers defend the present legal position of shareholders, and indeed urge them to exercise their rights more vigorously. On the other hand, there are critics who, believing the existing law to be dangerously out of touch with reality, demand a major structural reform which will give legal expression to the rights of the workers and the community. I confess I feel rather neutral in this dispute, disagreeing wholly with the first school on grounds of principle, but doubting whether a major change is worthwhile in practice, or indeed whether the legal issue really much matters.

In principle I can see little to be said for the present law. It gives to shareholders, and to shareholders alone, the right to appoint directors, and to receive and approve the company's accounts. This right they possess because they, and they alone, are legally 'members' of the company by virtue of owning shares. No legal responsibility exists towards the workers, the consumer, or the state; and none of these has any legal rights.

This seems a somewhat unreal position. It can hardly be denied that industry is in practice a joint enterprise in which management and workers participate as well as shareholders, and indeed

participate rather more actively; and the law, by investing the shareholders alone with legal rights, does not merely fail to reflect the reality – it turns it upside down. As even a well-known Conservative statesman has written, ‘the human association which in fact produces and distributes wealth, the association of workmen, managers, technicians, and directors, is not an association recognised by law. The association which the law does recognise – the association of shareholder-creditors and directors – is incapable of production or distribution.’<sup>1</sup>

This legal position can hardly now be justified on grounds of principle. The doctrine of the ‘rights of property’ has, it is true, an old and honoured history in political theory, going back, in its modern form, to Locke. And the Lockean doctrine of inalienable private rights was, in its contemporary setting, a progressive and even revolutionary philosophy. But political theories are not eternally valid; and this doctrine can hardly be held to forbid any change in the organisation of industry in the quite different circumstances of to-day.<sup>2</sup>

When asking themselves what rights private property ought to retain, when these conflict with other rights in society (such as the rights of labour, or the consumer, or the locality), most people would, I suppose, be influenced by two main considerations.<sup>3</sup> First, what function does private property fulfil to justify its rights? Secondly, how is the property distributed, and do all citizens have an equal chance of acquiring it?

A century ago, industrial property-ownership fulfilled a vital economic function, being directly associated with active management. But to-day, over the bulk of industry, ownership and management have become divorced in the manner sufficiently commented on elsewhere in this book. The owner, from being an active entrepreneur, has become the familiar passive shareholder, neither in fact controlling his firm, nor capable of doing so even if he wished, since effective government by shareholders is now a

<sup>1</sup> Lord Eustace Percy, *The Unknown State* (1944).

<sup>2</sup> Yet by some people it still is, in a crude and bowdlerised form; cf. the debates in the financial press during the take-over bid controversy of 1953-4, especially those relating to the Savoy and Worcester Building Company episode (e.g. *The Economist*, 12 and 19 December 1953).

<sup>3</sup> We are not here concerned, of course, with personal property, used by a man for his own comfort and enjoyment, but with property in the sense of ownership of the means of production.

## THE STRUCTURE OF PRIVATE INDUSTRY

physical impossibility. They are both too numerous – some industrial giants have over 100,000 on their register, and most public companies have over 2,000 – and too geographically scattered.<sup>1</sup>

Nor, of course, have they any desire to govern. The majority are ignorant of business – 40% of shareholders are women – and the remainder too busy with their full-time jobs elsewhere. They hold shares because they want the income or capital appreciation, not because they want control. They spread their money between several different companies, instead of concentrating it as they would if they aspired to active management; and there is, moreover, a rapid turnover of shares in all large companies (much more rapid than the turnover of workers), instead of the stability of holdings which would denote a genuine and permanent concern with the fortunes of the firm.

None of this is denied by the shareholders' champions. The late Hargreaves Parkinson, the most notable of these, wrote that 'only a handful of shareholders attend annual meetings, or appoint voting delegates, and their function is mainly to be a rubber stamp for the decisions of the Directors. It must be admitted that, in the ordinary way, the stockholder is *not* an interested party, in the sense of one who takes an intelligent, even if discontinuous, interest in the company's affairs. As a rule, he neither understands them nor makes any attempt to understand them. . . . To-day, there is only one bond of union between shareholders – a common desire to obtain as high a dividend as possible.'<sup>2</sup>

Even the shareholders themselves seem subconsciously to sense the decline in their economic function; and they have become listless and apathetic to all attempts to organise them for the defence of their ancient rights.<sup>3</sup> 'The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property. . . . The holder of the title loses the will to fight, economically, physically,

<sup>1</sup> Companies can of course be found in which a small group of large shareholders own a sufficient proportion of the total voting shares – which may be only 20% or 30% in view of the atomisation of the remainder – to give effective control if they wish to use it. But these are exceptional cases.

<sup>2</sup> *Ownership of Industry* (Eyre and Spottiswoode, 1951), pp. 99-100.

<sup>3</sup> Perhaps they read too much of the great Marshall. 'The rights of property, as such, have not been venerated by those master minds who have built up economic science; but the authority of the science has been wrongly assumed by some who have pushed the claims of vested rights to extreme and anti-social uses.' (Alfred Marshall, *Principles of Economics*, Macmillan, 5th ed., 1907, p. 48.)

politically, for "his" factory and his control over it, to die if necessary on its steps. . . . Dematerialized, defunctionalized, and absentee ownership does not impress and call forth moral allegiance. Eventually there will be *nobody* left who really cares to stand up for it – nobody within and nobody without the precincts of the big concerns.<sup>1</sup>

Matters have not moved quite as far as this in Britain – yet. But the decline in the will to fight and the self-confidence of the share-owning class is very visible. The nationalisation measures of 1945–51 met with scarcely more opposition than measures to limit the employment of children 100 years ago; and the political inertia of shareholders was the cause of bitter lamentation amongst their self-appointed champions. Later proposals (e.g. for nationalising steel and chemicals) of course aroused more opposition; but even then it was not only much less violent than might have been expected, but came wholly from management, with shareholders playing no part at all. Characteristically, the one tearing, vehement (and very successful) public campaign against a nationalisation proposal came from an individual and a firm both (exceptionally amongst large public companies) largely entrepreneurial in character – the late Lord Lyle, and Tate and Lyle.<sup>2</sup> But generally the attempts to arouse a fighting spirit amongst shareholders were a dismal failure, almost as though they had as little faith as their opponents in the validity of their claims.<sup>3</sup>

There has, it is true, been a certain revival of shareholder activity since 1951, expressed in take-over bids and the formation of stockholders' associations. But what is surprising is not how many, but how few, such efforts were made; for circumstances were exceptionally propitious. A prior period of dividend limitation, a marked gap between asset values and share values, heavy taxation of income but none of capital gains, a Conservative government, vociferous support from all the City Press, and

<sup>1</sup> Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (Allen and Unwin, 1943), p. 142.

<sup>2</sup> Tate and Lyle at one time had six Tates among the 20 largest shareholders, holding between them 27% of all voting shares and six directorships, and three Lyles holding between them 15% of all voting shares and two directorships.

<sup>3</sup> They remained, for instance, as unmoved by Hargreaves Parkinson's stirring cry – 'The remedy is in his hands. Let him unite. He has everything to lose.' (*op. cit.*, p. 104) – as by the efforts of the *Financial Times* in April 1949 to organise a Shareholders' Defence League.

undoubtedly a good deal of managerial flaccidity after 15 years of an inflated sellers' market – one would have expected, in a situation of this sort, much more shareholder activity than in fact occurred. As another shareholders' champion, surveying the take-over bid years, and lamenting the continued passivity of shareholders as 'Capitalism's Trojan Horse', wrote sadly at the end of the period: 'Progress has been made, but I should not be inclined to say that the overall record was an inspiring one.'<sup>1</sup>

But the doctrine of shareholder control, although clearly now untenable by reference to an active entrepreneurial function, might still be justified by reference to the risks involved in investment.

In the days before limited liability, these risks were indeed tremendous – they were risks of total bankruptcy.<sup>2</sup> But to-day they are very much less. The investor risks only that sum which he invests in the company concerned; and almost all investors minimise their risk by spreading their shareholdings between several different firms. Even if they did not, the risk, so far as most public companies are concerned, would not be great. There appears to be a declining long-run trend in the number of bankruptcies; and few large companies to-day can be considered really risky in the sense that shareholders may lose their whole investment. A high proportion have some element of monopoly protection in their market situation, a still higher proportion spread their own risks by multi-line production, and full employment and inflation constitute a further strong protection in the background.

There remains, of course, a risk of capital depreciation (though much less now than formerly) – but so there does with gilt-edged

<sup>1</sup> Candidus in *Investors' Chronicle*, 19 November 1955.

<sup>2</sup> Their most famous victim was Sir Walter Scott. Scott knew himself to be a mine of wealth as a writer; he also had very expensive tastes. He was determined that he, and not his publisher, should be the main gainer from his talent, and, sanguine by nature but innocent in financial matters, he took the risk of putting large sums of money first into the firm of Ballantyne Brothers – of whom the one appears to have been a trickster, the other an ineffective and melancholy epicure, but both equally extravagant – and later into Constable (described by the young Disraeli as an 'ostentatious braggart').

Eventually Constable went bankrupt, and Scott found himself liable for £40,000 – a far larger sum than he had ever put into the business. By the time he died seven years later, he had succeeded, by a sustained and almost frenzied effort of writing, in paying off 16s. in the pound.

It is ironical, in the light of this experience, that he bitterly attacked the early experiments in joint-stock organisation as 'madness' and 'the extremity of folly.' (v. Sir Herbert Grierson, *Sir Walter Scott, Bart.*, Constable, 1938.)

stock, which can fall rapidly in value if the rate of interests rises; yet no one suggests that bondholders should therefore have legal control over monetary policy. Similarly there is a risk of loss of income (though again much less than formerly), which justifies a claim to an income large enough to compensate the risk. But the risk of permanent loss of capital is negligible. Indeed in terms of risk the worker would seem to have at least as strong a case for legal control. Unlike the shareholder, he cannot spread his risk between different companies. If the firm in which he works goes bankrupt, or lays him off, he faces the prospect (even under full employment) of an involuntary change of work and employer, perhaps at lower wages and in worse conditions; while if he lives in a town dominated by a single huge concern, he may face either prolonged unemployment, or a domestic upheaval as he and his family are forced to move to a new and unfamiliar home. In the light of this, it seems rather impertinent, unless it is meant to be jocose, to press shareholders' rights to sole control on grounds of risk.

The decline in risk is again fully admitted by the shareholders' spokesmen. 'The risk that a sound company . . . will lose its earning power completely is negligible. Investors can, and do, largely disregard it. . . . Ordinary [shares] have a dynamic quality which, over a period of years, is usually expressed in a higher dividend and increasing market value. The "risk" on a really good ordinary share, therefore, is on balance a positive risk.'<sup>1</sup> Indeed such writers not only admit the decline in risk, but make it the basis of their contention that the ordinary share is now a suitable vehicle for those small savings which will gradually convert us into a 'property-owning democracy'. They cannot have it both ways. Either the risk is still considerable, in which case it becomes a cruel deception to urge the poor man to invest his exiguous savings in ordinary shares. Or the risk is negligible, in which case small savings may very properly be urged into industrial equities, but the claim to control on grounds of risk is unconvincing. Clearly the latter is in fact the case.

There is therefore nothing to-day in the nature of investment or the function of the capital market which gives the investor any natural 'right' to sole legal control. Investment entails no social responsibility, and should carry no additional social rights beyond

<sup>1</sup> Parkinson, *op. cit.*, pp. 26-7.

those, shared with all citizens, of protection against theft or confiscation. All it entails is an economic risk; all it is entitled to is an economic reward commensurate with that risk:

## II *The Proposal for Government Directors*

But the question is: is it worth a major change in company law in order to alter the present position? This depends on the complications involved, and on the real benefits (as opposed simply to the gain in logic) which are to be anticipated. I have doubts on both these points after examining the proposals of the three main protagonists of reform – Mr. Drucker,<sup>1</sup> Mr. Goyder,<sup>2</sup> and Mr. Albu.<sup>3</sup> These writers deserve exceptional credit for their pioneering efforts to find a more logical industrial structure. Yet I doubt if the results of reform would be worth the effort.

The most common proposals are that first the government, and secondly the workers, should have the right to representation on the boards of companies.<sup>4</sup> On the first point, the Board of Trade is to be entitled by law to one share in every public company, carrying with it the right to nominate directors if the Minister so desires. Thus will public responsibility be ensured, and effective control provided over the whole economy.

But what is wrong with large public companies to-day, after the changes described in Chapter I, is not a lack of 'public responsibility', in the sense of a neglect of the wishes of the Government. Such companies, in frequent touch with government departments, are normally attentive to government policy (that is, if there is one), and try consciously to act in the public interest. And if they do not, there are more effective ways of ensuring compliance than the despatch of one or two strange directors, who, after a short dose of the firing-line, would no doubt long for the role of *embusqué* Cuthbert in Whitehall.

But general responsibility apart, it is argued that government directors are needed to ensure a more effective *planning* control over industry. There appears to be a confusion here as to the

<sup>1</sup> *The New Society* (Heinemann, 1951).

<sup>2</sup> *The Future of Private Enterprise* (Blackwell, 1951).

<sup>3</sup> 'The Organisation of Industry', in *New Fabian Essays*.

<sup>4</sup> In fact Mr. Goyder, although he does not want government directors, proposes an immensely elaborate new legal structure – so elaborate as to be quite impracticable.



nature of modern governmental planning. Except under conditions of wild inflation, it is not detailed planning down to the level of the individual firm that is required, but a much broader influence operating on whole industries, and often groups of industries.<sup>1</sup> And if under special circumstances firm-by-firm planning is called for, then physical controls are a better method than government directors. They are more flexible, and can be either imposed or taken off as required, and more efficient in that policy can be directed and co-ordinated at the centre, instead of relying for its execution on some hundreds of individuals scattered over the country.

The practical difficulties, moreover, are formidable. There is the familiar objection that government nominees on a private board must either 'go native' or remain suspect, and in neither case will do their duty properly. Similarly they must, whenever a dispute over policy occurs, either have recourse to their power of veto, or be content to be out-voted; efficiency of management will suffer in the first case, and the whole point of the scheme be lost in the second. And where are these hundreds of directors to be recruited? We already face a serious shortage of men who, combining proved business ability with progressive views, would make cheerful and effective nominees of a Labour Minister. This shortage bedevils labour relations in the existing public sector, and makes it exceedingly hard for a Labour Government to man a whole host of public bodies. It will be further aggravated by the extension, discussed in a later chapter,<sup>2</sup> of competitive public enterprise, which will call for men with precisely these qualifications. It would not be sensible to waste such scarce talent on an objective which can be much better achieved by other means.

Lastly, the proposal would arouse the maximum of political heat for the minimum of effective result. The Government would be portrayed as taking sweeping powers over the whole of industry, and for a completely unspecified purpose. Management as well as shareholders would everywhere be up in arms. And indeed there is substance in the contention that the State's relations with its citizens should be regulated by the law, so that everyone knows where he stands, and what behaviour is reprehensible and what is not, and not by a system of Government agents with no fixed terms of reference, and hence inevitably arbitrary in their decisions.

<sup>1</sup> *v.* Chapter XXIV.

<sup>2</sup> *v.* Chapter XXIII.

III *The Proposal for Worker-Directors*

We are then left with the proposals relating to the legal position of the workers. First, it is suggested that the workers in a firm should become, if they so choose (and after a minimum length of service), legal members of the company, with the same rights as shareholders to receive financial information, and with some fixed proportion of total voting rights at annual general meetings. This could be achieved by the issue of a special class of non-interest bearing shares, as suggested by Mr. Goyder. Secondly, the workers should have the right to elect a proportion of the Board. It is not, of course, proposed that they should elect the entire Board – the objective is not to establish complete workers' control – but simply that they should be represented. Exactly what number would be a matter for debate. The German *Mitbestimmung* Law gives one-third of the seats to the employees' representatives; Mr. Goyder suggests that workers and shareholders should each elect two-fifths, and the management one-fifth. The employee-directors are not, for the reasons set out in the previous chapter, to be chosen by the Unions. In a single-plant concern they might be elected by the entire body of workers, and in the large multi-plant company by the workers' representatives on the joint consultative body.

The workers' moral (and logical) claim to such representation is, I believe, incontrovertible. The trouble is first that they seem to have little desire to exercise it, and secondly that such a reform, besides being subject to severe practical difficulties, cannot be guaranteed to produce any real benefit.

On the first point, the Trade Unions would be indifferent, if not actually hostile, to the change. They fear the creation of a parallel hierarchy of workers' representatives, neither chosen by nor responsible to themselves, possible rivals for the loyalty of their members, and dangerously likely to interfere in the proper Union function of negotiation. These fears may or may not be irrational, but they exist; and it is not easy to press a reform on behalf of the workers which their chosen leaders show no sign of wanting. Nor is there any sign that the rank-and-file much want the change. Most of them probably prefer to be left in peace, and not to take on added responsibilities; and even amongst the

militant minority this is not an issue which is debated at Trade Union or Labour Party meetings, or stirs much interest.

The technical difficulties are manifest enough: the shortage of potential worker-directors of the right calibre – men combining a strong personality, some financial and technical knowledge, and ability in committee work: the danger of divided counsels on the Board and a consequent loss of entrepreneurial initiative: the ambivalent relationship of the worker-directors to the Unions, especially when wages come to be discussed: the risk that a large number of Communists may be elected, bent solely on disruption: and so on. These points are sufficiently familiar.

The economic effects are harder to assess, since one scarcely knows how the scheme would work in detail in companies of different size and structure (though it is only intended to apply to public companies). There are two issues: the effect on managerial efficiency, and on the supply of capital. The first would depend simply on the quality of the worker-directors, and the way in which they interpreted their duties on the Board – that is, how much weight they gave to efficiency and enterprise as opposed to representing the short-term claims and grievances of their constituents. The outcome is merely a matter of guesswork. But in the light of the fact that many critics are already concerned at the calibre of British top management, that this is a sphere in which unity and freedom of action are particularly essential, and that the qualities most likely to win votes are not necessarily those which make an efficient director, one can hardly be sure that no loss of efficiency will ensue.

The effects on the supply of equity capital can no doubt be exaggerated. I argue in Chapter XX that the role of the shareholder as a source of new capital is consistently over-rated; and this book makes several proposals for limiting his net rewards – notably a tax on capital gains and measures to restrain dividend payments. But so long as we retain a large private sector, there is of course a limit to the risks which we can take with the supply of equity capital. For reasons set out in Chapter XX, I do not believe that we have yet reached this limit so far as taxation, or indeed any known and definite method of limiting dividends, is concerned. But we should exert a much more adverse influence on the supply of new capital by causing complete uncertainty, such as these changes would create, than by any definite measures

of taxation or dividend limitation. Investors would never know what policy a Board so constituted, and with a membership possibly changing every year, was likely to pursue; and while this might not always matter with established public companies, it could make it almost impossible for a private company ever to sell itself to the public – no one would know what to expect in the way of distribution policy, when the composition of the Board was due to change as soon as the company ceased to be private. And since this disturbance to the supply of new capital is wholly unnecessary in order to ensure a low dividend ratio, this being easily enforceable by taxation,<sup>1</sup> it surely constitutes some argument against the change.

Probably none of these difficulties is insoluble; and they might be worth enduring if a definite gain, either in contentment or social justice, was likely to result. But this seems rather doubtful.

If the diagnosis of the previous chapter is accepted, there is little reason to expect a gain in contentment or industrial morale. These seem to depend on the quality of local management and supervision, the degree of effective consultation at the point of production, the nature of the wage-bargain, and wider considerations of social equality. None of these will be much affected by the presence of a minority of worker-directors on the central Board of large public companies; and the instinctive indifference of the workers to the suggested change is thus perhaps well justified. Indeed the election of worker-directors might easily become a source of resentment of its own. If they seem to act in the long-term interests of the firm at the expense of the short-term demands of their constituents, they will quickly be accused of having 'gone over to the other side'; and the first time they are known to have supported the management on a wage-claim (or the first time one of their wives is observed driving round in a company limousine), the most violent recriminations will break out. It is much better that resentment should be directed at the existing management; Quisling accusations always create the deepest bitterness of all.

Will justice be improved? That is, will economic power become more equally diffused, and in some measure pass from the hands of shareholders or management into those of the workers, the State, or the consumer? If we recall the determinants of

<sup>1</sup> *v.* Chapter XX, Section III.

economic power discussed in Chapter I, we shall not expect this to occur simply as a result of changing company law. Such power now scarcely depends at all on the legal structure of the firm. The shareholders, who retain the sole nominal power, have little real power; and the real power of the other parties in no way depends on their being represented on the Board. The State can exercise what power it chooses through taxation, or physical controls, or legislation. The power of the Unions depends on conditions in the labour market, their external influence on the firm or the industry, and the labour policy of the government. The power of the individual worker again depends partly on the employment situation, and partly on the degree of consultation at the point of production. And the power of the consumer depends simply on the degree of monopoly and the extent of inflation. None of these would be in any way increased by a change in company law.

It is easy to become bemused with constitution-making and legal formulae. But if we stick to the real object, which is a certain distribution of effective power, we see that a change in the law, logical though it might be, would make no difference to the underlying reality. Despite the existing law, the shareholders have little power, and the government and the Unions have much. It is therefore surely not worth so elaborate a reform, with all its intricate complications, if the result is to be no serious gain either in contentment or in social justice.

#### IV *Profit-sharing*

Is profit-sharing perhaps a compromise solution?<sup>1</sup> After an unhappy history in the inter-war period, this has recently attracted a marked revival of interest. Certainly the atmosphere is more propitious than it was before the war. The lead is being taken by the more progressive managements; and profit-sharing is no longer associated, as it often used to be, with bad personnel relations. The greater stability of profits under full employment

<sup>1</sup> By this is meant any scheme under which a company's annual surplus, after prior claims and charges have been met, is divided on stated terms between shareholders and employees, the payment to the latter taking the form either of cash, or shares, or payments into a fund (e.g. a pensions fund, or workers' share bank).

reduces the risk of collapse through insolvency; while the post-war schemes are more imaginatively framed than their predecessors, and the possible benefits somewhat larger. Since, in addition, Trade Union strength is now such that no firm could possibly hope to use profit-sharing as a means of cutting wages or weakening Union loyalties, the pre-war hostility of the Unions has largely disappeared; and some of the recent schemes have even been worked out with their co-operation.

What attitude, then, should the Labour Party adopt towards profit-sharing? The Conservatives seem suddenly to have discovered it as the new panacea for all our industrial troubles; and some socialists have reacted, by an instinctive reflex action, with an equal degree of suspicion. In practice, neither great enthusiasm nor deep suspicion seem justified.

Profit-sharing might serve one of three useful purposes. First, it may have some influence on the distribution of wealth, by guiding a larger share of profits than otherwise towards the worker, and a smaller share towards the stockholder. This influence is in practice small, partly because the amounts paid out under most existing schemes are, as a proportion of total profits, quite derisory; and partly because the worker's share in rising productivity depends far more on the skill of the Trade Unions in negotiating piece-rates, production bonuses, and wage increases.

Nevertheless, the influence, such as it is, is in the right direction; and there is no point in being haughty about gains which come without our having to lift a finger. From this point of view it makes no difference what form the profit-distribution takes; and a collective production bonus has the same effect as a more elaborate scheme.

Secondly, profit-sharing might be regarded as an alternative method of achieving the object of the Albu-Goyder reforms, namely to raise the legal status of the worker relative to that of the shareholder. This would be achieved if the distribution took the form of voting shares, and if these were issued in amounts which were significant in relation to the total outstanding voting capital. (Neither of these is true of most existing schemes.)<sup>1</sup> Those workers who chose to keep their shares would then automatically become members of the company, and gain the same

<sup>1</sup> Of course, the only true profit-sharing (and co-partnership) is to be found within the Co-operative Movement.

voting and elective rights as the existing shareholders, without the need for a complex change in company law.

This is a possible line of advance. The present schemes, pretentious as most of them are, have at least inserted the thin end of the wedge. This could be driven in further by a Labour Government. It is of course out of the question to impose a single uniform scheme on the whole of industry, laying down some universal ratio of profit-distribution. But the Government could both make it clear, through Parliament and the joint advisory councils, that it favoured effective schemes, of whatever exact nature, for the wider diffusion of voting shares amongst the workers,<sup>1</sup> and that its attitude to firms and industries would be influenced by their response to this appeal: and possibly also, as Mr. Gaitskell<sup>2</sup> and others have suggested, consider legislation compelling the distribution of some fraction of any *bonus* issue either direct to the workers, or to a trustee or eleemosynary fund.

It would certainly be logical that the workers, or their representatives, should thus acquire some legal rights in the company. But no sensational results are to be anticipated from this; for, as was pointed out above, the wage-earners seem as reluctant to accept these rights, as managements often are to accord them.

But thirdly, and in practice most important, profit-sharing may under certain circumstances increase industrial contentment. It will not, of course, induce a greater physical effort on the part of the worker – save in a very small concern, the link between the individual's effort at the margin and the company's total profits is remote to the point of being non-existent; and even if it were not, the infrequency of the profit-distribution would make it seem so.

But it might conceivably improve industrial relations by removing, or weakening, the suspicion that wages are not gaining their fair share of higher productivity. In view of the prevalence of such suspicions, to which the last chapter drew attention, this might seem a serious argument in favour of profit-sharing. And there is some evidence that companies operating such schemes have better-than-average labour relations, and indirect supporting evidence in the fact that those firms with the most progressive

<sup>1</sup> Though allowing companies reasonable latitude – enough to ensure, for example, that the result is not simply a decline in company saving; we do not want a direct transfer from undistributed profits to workers' consumption.

<sup>2</sup> At the 1951 T.U.C. Conference.

personnel policies in the past are now in the van of the profit-sharing movement. Nevertheless, elaborate schemes of the sort now becoming popular will certainly not work any miracles. Those firms which introduce them usually enjoy good labour relations anyway, so that they are less the cause than the effect of good relations. And in firms where relations are bad already, and no confidence between management and men exists, an elaborate scheme will not make matters any better, and may easily make them worse by introducing a new source of suspicion and misunderstanding. It can therefore only be a supplementary aid, useful if superimposed on a situation already basically healthy.

But if we forget elaborate profit-sharing devices, it remains true that any direct link between total wage-payments and the performance of the firm, provided that it is simple enough to be clearly understood, and that the amounts involved are significantly large, can often help to eradicate suspicion about the distribution of increased output. Some British firms already achieve this result by a collective production bonus; and in the U.S., and increasingly in France, the Trade Unions (though admittedly bargaining on a plant level, which makes things easier) often establish a link between basic wage-rates and future increases in productivity. If we were considering legislation, a legal sanction for some such link would be preferable to the imposition of a more complicated structural reform; though even here general legislation would be rendered exceedingly difficult by the heterogeneity of the private industrial sector. Trade Union action would be more effective. While mildly welcoming, therefore, the spread of profit-sharing, I should much prefer the Unions to develop a more ambitious attitude to the wage-bargain, so that wages not only in fact obtained, but were clearly seen and known to obtain, a generous share of the benefits of rising productivity.

## v *The Shareholder's Claim to the Surplus*

The last point to be considered is the public supervision, at the *national* level, of profit and dividend policy. This is required for reasons not primarily connected with economic control, but



in order to prevent the incomes of shareholders from being too large relative to other incomes.

The moral case for limiting the reward of shareholders is based directly on the egalitarian arguments presented in Chapter IX. It is true that dividends have gone up by less than other incomes since before the war – though by more since 1953. But from a socialist standpoint the case for reducing their share in the total is irresistible. Private property, besides being to a significant extent inherited, is still most unequally distributed,<sup>1</sup> and shareholdings more unequally even than total private property.

The Oxford Savings Survey shows that only 5·7% of families hold any stocks and shares, and that even within this small number ownership is heavily concentrated – for example, the 0·1% with the largest holdings account for almost 20% of the total.<sup>2</sup> This largely confirms the well-known previous findings that the total number of shareholders was some 1¼ millions, i.e. 3% of the total population and 5½% of single adults and married couples: that the average holding even in 1941 (since when prices have risen greatly) was £800 in market value: that most investors held shares in more than one company: and that the large shareholder heavily outweighed the small – 70% of shareholdings accounted for only 13% of total nominal capital, whereas 0·25% of holdings, each of over £10,000 in nominal value in 1941, accounted for one-third of the total value of ordinary shares.<sup>3</sup> For comparison, one-third of families in Britain own no net capital assets, and more than one-half own less than £100.<sup>4</sup>

It is sometimes said that dividends all come back to the worker in the end, since they largely accrue to pension and insurance funds of which he is the ultimate beneficiary. This is not the case. Even if we assume that all institutional investments are ultimately redistributive in this sense (which of course they are not), they still account for only 10-20% of all quoted ordinary capital.<sup>5</sup>

<sup>1</sup> *v.* Chapter XIV, Section I.

<sup>2</sup> T. P. Hill, *Bull. Inst. Stat.*, May 1955, p. 151. Death-duty statistics also confirm the high degree of concentration.

<sup>3</sup> *Financial Times*, 2 March 1949, and Hargreaves Parkinson, *op. cit.*

<sup>4</sup> Hill, *loc. cit.*

<sup>5</sup> Of total interest and dividends paid by companies, only 10% is received by life assurance funds, charitable organisations, and similar bodies; 40% is received by surtax payers. (*Hansard*, 21 October 1952, Col. 844.)

These figures are also the answer to another argument, namely that to depress the income, or diminish the rights, of shareholders, is to deny the concept of a property-owning democracy which is at once the basis of company law and an important social objective.<sup>1</sup> If we had a property-owning democracy, no doubt one's attitude would be quite different; something is said on this in Chapter XXIII. But the fact is that we have not; and for the present we must take the facts as they are.

Conservatives sometimes argue that dividends ought at least to rise in line with capital employed.<sup>2</sup> But, as is often pointed out, since in a progressive economy capital employed (as so defined) may be expected to rise faster than the national income, this would mean a continuous transfer from the rest of the community to shareholders. This cannot be considered acceptable.

In any case, the moral basis of the claim is highly dubious. Naturally if the additional capital comes from a new issue of paid-up share capital, the subscribers are entitled to a dividend income commensurate with the risks involved. But where it comes from ploughing-back, it is not clear that the shareholders' claim is justified.

It is argued that these reserves are the result of past abstinence; they represent monies which, had the shareholders been more grasping, might have been drawn out of the business year by year in higher dividends, but which instead have been ploughed back; and for this restraint a monetary reward is justified. Socialists have been rather impatient with claims to large property-incomes based on theories of abstinence ever since Nassau Senior, first proclaiming in 1836 that abstinence was an instrument of production, was attacked by Marx in one of his most acid passages. 'An unparalleled sample this, of the discoveries of vulgar economy! It substitutes for an economic category a sycophantic phrase – *voilà tout*. . . . All the conditions for carrying on the labour process are suddenly converted into so many acts of abstinence on the part of the capitalist. If the corn is not all eaten, but part of it also sown – abstinence of the capitalist. If the wine gets time to mature – abstinence of the capitalist. The capitalist robs his own self whenever he uses [the instrument of production] . . . instead of eating them up, steam-engines, cotton,

<sup>1</sup> cf. *The Economist*, 12 December 1953.

<sup>2</sup> Defined as subscribed share capital, and capital and revenue reserves.

railways, manure, horses, and all; or, as the vulgar economist childishly puts it, instead of dissipating "their value" in luxuries and other articles of consumption. How the capitalists as a class are to perform that feat is a secret that vulgar economy has hitherto obstinately refused to divulge. Enough that the world still jogs on, solely through the self-chastisement of this modern penitent of Vishnu, the capitalist.<sup>1</sup>

Ignoring the rather unreal picture conjured up by the word 'abstinence', with its suggestion of painful sacrifices borne with stoic fortitude, in what sense can one say that a growth in company reserves, as a matter of justice, or even of economics, properly 'belongs' to the shareholders? Suppose the expansion to be due to greater efficiency. It would, presumably, then be argued that this was made possible only by the more effective utilisation of the shareholders' property in the shape of the existing capital assets. But it is notoriously hard to impute a rise in output to any one factor of production. It might just as reasonably be said to be due to the efforts of labour or management; and indeed Trade Unions often base wage claims on precisely this argument. There can never be any scientific grounds for saying that an increase in net profits (even the residual increase after higher earnings have perhaps been paid to wage-earners) derives from a higher productivity of capital, as opposed to a higher productivity of labour or management.

Alternatively, the extra profits might be due not to greater efficiency, but to higher unit sales following an expansion of demand, or higher unit profits consequent on inflation or an increase in the degree of monopoly. In this event none of the parties could lay claim to the surplus on grounds of extra effort or efficiency; and the strongest claimant might be thought to be the consumer.

The truth is that there is little use in parading any of these arguments, since there exist no agreed criteria by which a growth in profits can be divided up amongst the contending parties. The only basis for the shareholders' claim is the purely legal one that under present company law all current profits 'belong' to them; and if they abstain from drawing them out in one year, they are entitled to an income on them in future years. But this legal attribution of profits has no obvious moral or economic

<sup>1</sup> *Capital*, pp. 608-9.

basis. Indeed the workers might equally well claim that they had abstained, by their restraint in the matter of wages, from appropriating the surplus in past years, and therefore deserved the same reward in future years. In the end, the proper division of the surplus depends simply on one's view of the right distribution of total income.

## VI *Methods of Dividend Limitation*

If control over dividend policy is required primarily in order to achieve such a distribution, and to remove from the hands of private management the power to decide the share of net dividends in total income, this can be easily enough effected by fiscal measures, both personal (e.g. a capital gains tax) and corporate. The latter raises the whole question of profits taxation and the supply of savings, and is discussed in detail in Chapter XX. But within limits the government has it within its power, by using different methods of taxation, to enforce any desired ratio of dividend distribution to total profits; and there is no need from this point of view to go outside the sphere of fiscal policy.

But perhaps some statutory control is needed to improve industrial relations? There is no definite evidence that this is so. The persistence of industrial resentments appears to be due to our lingering social inequality, to the average calibre of British management, and to a suspicion, which is equally evident in nationalised industry, that wages are not obtaining a fair share of rising productivity. If, therefore, large dividend increases are in fact prevented by taxation policy, it is not clear that statutory limitation would make much difference.

However, we cannot rule out the possibility that it might be desirable under certain circumstances<sup>1</sup> – if a practicable scheme can be devised. This, unfortunately, is not easy. Mr. Albu, for example, proposes a permanent statutory limitation, varying for different types of company according to the degree of risk. But it would surely be beyond the compass of any group of men, however shrewd and prescient, to draw up a precise schematic picture of the 'correct' return on risk for every type of firm.

<sup>1</sup> e.g. as part of a national wages policy negotiated with the Trade Unions (v. Chapter XXI).

Even the Stock Exchange, with the advantage of collective knowledge, performs this task rather indifferently, and in any case is constantly revising its assessments in the light of changing circumstances. The idea of a mathematical hierarchy of risk factors, worked out by Treasury officials with slide-rules, presupposes a degree of omniscience which could only be even approached in an economy with no consumer's choice, no competition within industry, and no export fluctuations.

The simplest answer, naturally, would be a statutory limitation of dividends at their existing rates, in the hope that these already sufficiently reflected variations in risk. But this would penalise companies which in preceding years had pursued a conservative dividend policy, as compared with those which had been generous, and even immodest, in their distributions; this would be particularly resented if the previous restraint had been at the request of the Government, so that companies earned a forfeit for loyalty and a reward for disloyalty. It would be crudely indiscriminate between efficient and inefficient, expanding and static, firms, denying any prize for growth or better performance. And as profits expanded, share values would begin to lose touch altogether with asset values, and dividend yields with earnings yields. The consequence would be not merely a marked distortion between the values of different shares, due to varying rates of increase in profits, but a general under-valuation of shares relative either to earnings or asset values. No doubt the ill effects of this are often exaggerated. But if the disparity becomes complete, the result must be strong pressure on companies by existing shareholders never to raise new equity capital, and a spate of take-over bids and an explosive Stock Exchange boom each time the Conservatives come back to power.

The only possible solution in practice would be to allow an increase in dividends in a certain ratio to the increase in profits. This would at least be reasonably flexible. Not only could the permitted ratio be altered if economic events required; but firms would fare differently according to their current earnings performance. Those that showed the largest increase in profits could raise their dividends the most, and conversely. Thus expansion would be rewarded; and those companies which, by virtue of their expansion, were the most likely to need more capital from the market would be the most favourably placed for obtaining

it.<sup>1</sup> At the same time share values would not become completely divorced from asset values, nor dividend yields from earnings yields.

But even this, although probably a workable and not wholly damaging scheme, would create problems for certain types of company – for example, the company which traditionally distributes a high proportion of its earnings, which shows a rising trend of profits, and yet has no need or desire to finance a large expansion of capacity: or the raw material-producing company operating overseas, subject to an exceptional degree of risk, often operating wasting assets, and traditionally distributing almost to the limit of its (sharply fluctuating) profits. These difficulties are probably not insoluble; but they would add both to the complexity of the scheme, and to the disturbance which it would create.

It is therefore clearly preferable to keep statutory limitation as a weapon of last resort, and to rely, unless the arguments for legislation seem overwhelming (and in terms of labour relations they are not), on measures of taxation.

But there is another influence to which too little attention is paid. It is sometimes thought that dividend and profit policy are inexorably determined by economic facts, or by the particular organisation of industry: that given private ownership, a competitive economy, and the pre-eminence of financial incentives, a particular (in this case generous) dividend policy is an absolute condition of efficiency and a rapid rate of growth.

There is not much evidence for this view in practice. On the contrary, attitudes to profits and dividends even in a privately-owned economy appear to be, partly at least, culturally and historically determined. What management thinks it normal and proper to pay out, and shareholders to receive, depends within very wide limits on the tradition, the social character, the balance of class power, and the general moral climate of the country concerned. Britain, the U.S., Germany and Sweden, all operate largely privately-owned and 'free-enterprise' economies. Yet the importance of the shareholder, the role of the capital market, and the attitude towards dividends, vary significantly between these four countries.

<sup>1</sup> A new issue of paid-up share-capital (as opposed to free or scrip issues) would of course entitle a company to raise its dividend disbursements *pro rata*.

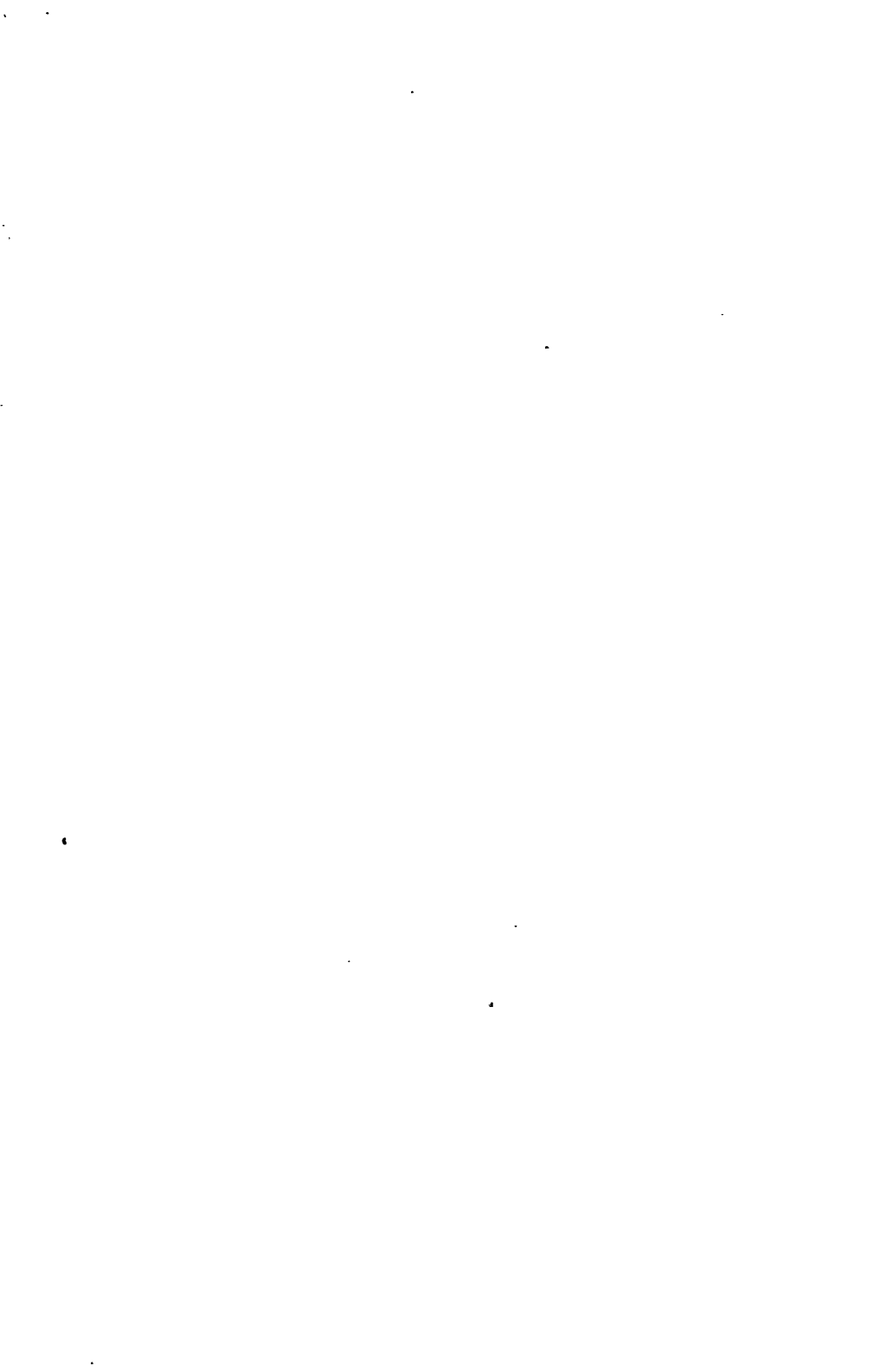
And these attitudes can change quite rapidly through time. In Britain, for example, they are quite different to-day from what they were in the 1948-50 era of Crippsian restraint; and the expectations of shareholders are significantly greater. It is not unlikely that they could change again. A gradual advance towards a more social-democratic society, and a further growth in the power of both management and workers relative to shareholders, might well, even with no change in the law or the pattern of ownership, diminish the expectations of capital-owners, and induce that culturally-determined moderation in dividend policy which now characterises social-democratic Sweden.

Indeed the whole discussion of this chapter and the last has served to emphasise the importance of wider social influences. A more equal distribution of industrial power seldom requires, or indeed can be obtained by, legislative change. It requires as an absolute condition the maintenance of full employment and a favourable political climate. Beyond this it depends much less on action taken in Whitehall, than on a change in the attitudes of both labour and management. The former is at least as important as the latter, and presumably more under the influence of a socialist party. The attainment of this part of the egalitarian goal is therefore largely in the hands of the Trade Unions. If they press successfully – and they largely have the power to do so – for the equalisation of non-wage privileges, the spread of effective consultation, and ‘high-level democracy’ at the national and industry level, they can help to create a social-democratic atmosphere in industry which will parallel and reinforce the other egalitarian changes suggested in this book.

PART FIVE

ECONOMIC GROWTH AND EFFICIENCY





## XVIII

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### HOW MUCH DO ECONOMICS MATTER?

#### I *The Arguments for Rapid Growth*

IN considering what economic policy a Labour Government should pursue, the first thing to decide is how much weight to attach to economic efficiency and a rapid rate of growth of output.

One can imagine a society in which the problem of production might reasonably be treated as secondary, either because the standard of living was already so high that people did not fret over-much about still further amelioration, or because the economy was so favourably placed that further improvements came with comparatively little effort. Both these conditions are partially fulfilled, for example, in the United States. Living standards are such that the public is quite happy to 'endure' (as it might seem to less fortunately-placed peoples) a colossal 'waste' of resources on 'frivolous' or at least non-essential production, such as advertising, or the mass manufacture of fripperies and titivating novelties of all kinds; and the whole notion of 'scarce resources' is hardly relevant. Moreover production has a high rate of almost automatic potential growth, given the prevailing psychology of rapid innovation, the painless ease with which large sums can be set aside for further investment, and the favourable situation with respect to foreign trade.<sup>1</sup> Under these circumstances it seems absurd to speak as though economic efficiency were the central issue; and, provided always that full

<sup>1</sup> Though this last factor might change if the U.S. exhausts its indigenous material supplies in the manner forecast by the Paley Commission.

employment was maintained, a reformer could turn his main attention to non-economic problems without worrying too much about the rate of growth.

Before the war, most socialists had visions of a similar state of abundance being quickly attained in Britain; and they were therefore rather indifferent to questions of higher productivity. This was a natural attitude at the time. Unemployed resources were at hand, and it was evident that if they could be drawn back into production an easy rise in living standards would result. Moreover incomes were most unequally distributed; and this offered the possibility of a clear improvement in working-class standards simply by the transfer of existing wealth. Nor did our exceptional dependence on foreign trade then seem to present a vexing obstacle. Food and materials could be had on the cheap; and there was no sign that the improvement in the terms of trade, which for two decades had sustained the British real income, was about to be reversed.

It was a world in which supply everywhere seemed to exceed demand; and every Labour week-end speech contained its quota of references not merely to unemployment at home, but to coffee being burned in Brazil, to crops destroyed in the U.S.A., to livestock slaughtered in the interests of restriction schemes. Ample scope clearly existed for raising living standards everywhere – it was only a question of so organising monetary demand as to ensure the full utilisation of resources, and of transferring wealth from rich to poor. It was thus not unnatural that socialists should repeat that ‘the problem of production is solved: only the problem of distribution remains’ – they were, after all, fortified by the authority of Keynes himself, who supposed, looking only a generation ahead, that it would be ‘comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero’.<sup>1</sup>

But to-day there are no such easy reserves waiting to be tapped. Employment could hardly be fuller than it has been since 1945; while the bulk of the population would not gain much materially from further redistribution. Improved living standards, or any other economic claims, can now be met only by higher production per head; and questions of growth and efficiency move into the forefront of matters to be attended to.

<sup>1</sup> *The General Theory of Employment, Interest and Money* (Macmillan, 1936), p. 221.

## HOW MUCH DO ECONOMICS MATTER ?

But how near to the actual forefront should they be placed? Some socialists, despite the changed conditions, still want to relegate them to a rather unimportant status. They invite us to stop worrying about hard work and economic matters, and to relax into greater leisure and more cultural pursuits.<sup>1</sup> I agree with them in principle, but not in timing; that is, I shall agree with them two decades from now. But for the moment the total claims on our already fully-employed resources are certainly too great to permit indifference to the rate of growth.

First, we need more foreign investment to assist the rate of growth in the under-developed countries. The post-war Labour Government did a little – too little – in this direction; but further progress has been infinitesimal since the Conservatives came to power. The matter is sometimes argued in terms of the fight against Communism; but of course the overwhelming argument for a greater effort is moral and humanitarian. At present our net expenditure on foreign aid is trivial. Some socialists have spoken of 2%, or even 3%, of the national income as the minimum level of aid which is compatible with a clear conscience in the matter. But whatever the exact figure, a substantial increase in our export surplus will be needed.

Secondly, the relief of hardship and distress at home. This was discussed in Part Three, where it was made clear that a considerable rise in social expenditure would be required for several years ahead; and even then many urgent requests for help might have to be temporarily refused.<sup>2</sup>

Thirdly, the backlog of social investment. We are still plagued, as a result of wartime and post-war scarcities superimposed on twenty years of neglect, by a constricting shortage of social

<sup>1</sup> But they often confuse efficiency and effort (=hard physical work). Total output does not, in a modern economy, depend mainly on harder work or longer hours, but on technical and managerial standards and the quantity of capital equipment. Thus the average working week in the U.S. is shorter than in Britain, and hourly physical effort no greater. To stress economic efficiency does not entail a continual nagging about harder physical effort, or a guilt-feeling about shorter hours.

<sup>2</sup> Even the remnants of primary poverty require for their relief something more substantial than vague and patrician expressions of good-will, such as, for example, those vouchsafed us by Sir Osbert Sitwell when he writes that 'it has always seemed to me that there should be no poor, and that people should not have to trouble about money' (*Great Morning*, p. 36). This rather takes one's breath away. However, all socialists should applaud the immediately preceding sentiments. 'Avarice and even carefulness have always to me seemed to be vices. I avoid the skinflint as though he were a source of contagion. I even turn from the words that describe this mortal sin, such nouns as parsimony, niggard, screw, scrimp, lick-penny, such verbs as stint, scrimp, pinch and gripe.'

capital – hospitals, mental homes, new schools, slum-clearance housing, homes for old people, and the like. And if we set as our objective the provision of public health and education not merely at a decent standard, but at a standard comparable with the best available to the richer classes, it is clear that we shall need a large increase in expenditure.

Fourthly, higher personal consumption. The case for according this, on socialist grounds, a high priority, was argued in a previous chapter.<sup>1</sup> But whether this case is accepted or not by writers and intellectuals, the people themselves are quite determined on a rapid improvement in their living standards; and governments will have to attend to their wishes.

Fifthly, our balance of payments position is still precarious; and we need a larger export surplus simply to buttress it more securely, quite apart from the claims of the under-developed areas. And, looking ahead, it is at least possible that a deterioration in the terms of trade will call for an increase in exports merely to maintain existing living standards.<sup>2</sup>

And, lastly, not only might a rise in manufacturing investment be a condition of accommodating all these claims, but a rise in certain hitherto neglected forms of non-manufacturing investment (e.g. roads) is an urgent necessity. This is further discussed below.

This adds up to a considerable total of demands. I do not see how anyone can avoid the conclusion that a rapid rate of growth will be an important objective for many years to come: and that the next Labour Government will need to show both agility and determination in the economic field.

Now to give a reasonably high priority to economic growth is not, as some socialists curiously suppose, to accept a Tory philosophy – rather, indeed, the reverse. A majority of these claims would be rated higher by most socialists than most Conservatives – certainly the first three, and possibly the fourth; while the last two are conditions of the fulfilment of the others. A rapid rate of growth, therefore, at least for the next decade, so far from being inconsistent with socialist ideals, is a pre-condition of their attainment. And it is certainly also a pre-condition of attaining

<sup>1</sup> *v.* Chapter XIII.

<sup>2</sup> This is not, of course, the sole foreign trade problem which might face a future government – a serious U.S. recession, for example, would throw up a quite contrary difficulty. But if this occurs it will, I think, be uncharacteristic of the long-run trend, which is more likely to be marked by scarce than by idle resources.

## HOW MUCH DO ECONOMICS MATTER?

office; for if the Labour Party were to neglect the goal of higher production, it would be accorded, and deserve, the clear disfavour of the British public.

### II *Should Growth Have an Over-riding Priority?*

But this does not mean that we must go to the other extreme and give growth an over-riding priority; for we already enjoy a quite rapid rate of growth in Britain, and one almost adequate to accommodate these claims within a reasonable space of time.

This did not appear to be the case for some years after the war. But that was because the annual rise in output, although considerable by historical standards,<sup>1</sup> was largely required to meet a number of exceptional and, we hope, once-for-all demands of a structural character arising out of World War II and the Korean War. Such were the repair of war damage, the backlog of fixed investment, the replenishment of inventories (both commercial and domestic), the need to raise exports to a level 75% above pre-war, and finally the huge rearmament burden and the sharp deterioration in the terms of trade which followed the outbreak of the Korean War. All these war-induced claims pre-empted the rise in output away from the home consumer, and created an atmosphere of scarcity and economic strain.

But most of these exceptional claims have long since levelled off. The disposal of the annual rise in output is now largely a matter of free choice, and not inexorably determined by necessity. That being so, the present rate of growth may be almost sufficient for all reasonable purposes. This is especially true inasmuch as even some of the peacetime claims described above also have (given a nearly stationary population) a once-for-all quality about them, and may be expected to level off after a few more years. This applies notably to social investment (including housing), which now needs to be, or should be, exceptionally high on account mainly of the immense backlog of requirements, and partly also of the bulge in the child population. But unless the birth-rate suddenly shows an entirely new trend, a decade of high spending would leave the position here very much eased.

Again, even if industrial investment needs to be raised as a

<sup>1</sup> *v.* Chapter I, Section II.

proportion of total output, it does not need to be raised indefinitely; a modest once-for-all increase in this proportion would suffice. The same applies in practice to foreign investment. And, lastly, expenditure on defence has already levelled off, and is now a declining proportion of total national income.

A decade of rapid growth would break the back of many of these claims, and allow further increases in output to accrue largely to consumption. Indeed on quite plausible assumptions about the behaviour of other components of demand, our present rate of growth would allow a doubling of the standard of living in 25 years.<sup>1</sup> This seems a reasonably cheerful prospect. If, therefore, we can manage the next ten years successfully – and this, so urgent are some of the immediate claims, remains a priority objective – we can then relax more freely, relegate economic questions to a lower status, and enjoy our growing wealth much more in the form of leisure.<sup>2</sup> Thus while it is absurd to say that rapid growth is of no importance, especially for the *next* Labour Government, there is equally no call to become obsessed by it, or to strain every nerve to get the maximum rate of growth at almost any cost.

Yet this is precisely what some people preach that we should do. This austere gospel they justify by pointing to international comparisons of rates of growth, which show that productivity is rising faster in certain other countries than it is in Britain. From this, alarming deductions are drawn.

First, anxiety is expressed about the effects on our foreign balance. It has been widely suggested, for example, that a faster rate of increase of productivity in the U.S.A. than in Britain (and elsewhere) must create a chronic dollar disequilibrium, inasmuch as the prices of American goods will fall relative to the prices of British goods. Britain must then resort to periodic deflation or devaluation in order to protect its balance of payments. Crudely, if America grows richer faster, this must be bad for other countries.

Few economists now would take such a simple view; indeed few would take a dogmatic view of any kind about the effects of growth on the foreign balance. It is clear, on the one hand, that

<sup>1</sup> v. A. A. Adams and W. B. Reddaway, 'The British Economy – A Longer View', L.C.E.S. *Bulletin*, December 1954. This assumes a continuation of the average 1948–54 annual rise in output per head of 2½%. If we project this still further, output would increase by four times in 62 years and eight times in 93 years.

<sup>2</sup> v. Chapter XXV.

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a slower rate of growth may create difficulties for the reason just suggested, that is, by raising the British price level relative to that obtaining abroad. On the other hand, it would also mean that foreign real incomes, and hence foreign demand for British goods, were rising faster than British real incomes, and hence British demand for foreign goods.<sup>1</sup> These two effects might cancel out; or the second might predominate, and the foreign balance actually improve. The fact is that economists disagree on the matter; and there can be no definite evidence, since everything depends on what assumptions are made about various price and income elasticities, for taking a conclusive view one way or the other.<sup>2</sup>

The apostles of growth have now transferred their attention to a different quarter of the globe and a different set of arguments. The talk is now all of the menace of Soviet industrial success. It is said not only that the Russian economy is growing overall at the rate of 6% a year, which far exceeds the rate currently being attained, or indeed ever attained in the past, by the major Western economies, but – much more portentous – that the growth in industrial productivity is also higher.

In fact there is some dispute about the current figures; and they have been strongly criticised, notably by Mr. Colin Clark.<sup>3</sup> But there is still more uncertainty as to whether they can properly be extrapolated into the future. Soviet growth over the last 30 years has been sustained by certain abnormal influences: the fact that it started at the time of the First Five-Year Plan from an exceptionally low level (production in 1928 was scarcely higher than in 1913): the great advantage of having the technical achievements of the West to imitate – of being saved, that is, much of the high cost in time and resources which unaided, pioneering technical progress must entail: the rapid rise in population: and, still more important, a transfer of labour on an enormous scale from agriculture (where productivity was low, and scarcely rising) into industry (where it was higher, and rising fairly rapidly).

The first two influences must of course exhaust themselves in

<sup>1</sup> v. H. G. Johnson, 'Increasing Productivity, Income-price Trends, and the Trade Balance', *Economic Journal*, September 1954.

<sup>2</sup> In any event, industrial productivity has in fact risen as fast in Britain as in the U.S. over the last few years (v. Chapter I, Section II).

<sup>3</sup> cf. the argument between Mr. Clark and Mr. Wiles in *Encounter*, August and November 1955.



time; the benefits to be derived from imitation must progressively diminish, while further spectacular advances are harder to achieve with each rise in the starting-point. But the latter two may also exhaust themselves. The industrial labour force can hardly continue to expand at its recent rate; not only is Russian agriculture beginning to show symptoms of a shortage of labour, but there are signs that the rate of population increase is slowing down. One cannot therefore definitely project the present rate of growth far into the future. Again, this is a subject on which the experts disagree.

But suppose that Soviet growth does continue at a somewhat, though not sensationallly, faster rate than our own, why should this be a matter of concern? Generally, it might be said, and quite apart from the strategic argument discussed below, because the object of economic activity is to satisfy human wants; therefore the maximum rate of growth must logically be the aim of economic policy; and if another country achieves a faster rate, we must at once emulate it for the sake of our own citizens.

But of course economic activity can never be viewed in isolation. Economic decisions impinge on the social, political, and cultural spheres; and they cannot be judged as good or bad unless their consequences in these other spheres are also taken into account. It might be that if we closed the (presumed) gap between British and Soviet rates of growth, we should increase the degree of satisfaction of material wants. But we might do so only at the cost of very unpleasant repercussions elsewhere. It might require, for example, a great increase in inequality in order to strengthen incentives: or direction of labour, and the withdrawal of the right to strike: or a heavy sacrifice of leisure, or culture, or simply peace of mind. All this is particularly relevant since an authoritarian régime starts off with obvious advantages from the point of view of growth. It has neither free Trade Unions to contest its wage and price policy, nor free electorates to impede its fiscal policy. But this is not a sufficient argument for abandoning democracy in favour of dictatorship; on the contrary, most people would consider it an overwhelming argument against giving growth an over-riding priority on grounds of economic welfare.

In any case the argument for doing so often rests on a confusion between economic growth and increases in consumption. These of course are not the same thing. It is true that the former is,

in a fully-employed economy, a condition of the latter; but the latter does not exhaust either the reasons why the former may be wanted, or the uses to which it may be put.

Now I regard a sustained and rapid rise in home consumption as a central socialist objective, and would be very discontented with a rate of growth inadequate to support such a rise. But our present rate of growth can hardly be called inadequate on these grounds, since on reasonable assumptions it will double the standard of living in 25 years. This is not bad going; and it scarcely seems worth chafing if other countries make prodigious efforts and do rather better. There is no point in being vain in these matters.

The question of accelerating the British rate of growth therefore has little to do with arguments about whether rising material standards are a good thing or not. I regard those arguments as settled once we assent to the present rate of growth. The case for significantly increasing this rate must rest on considerations other than 'welfare' in the sense of higher consumption.

In fact the strongest arguments for fearing Soviet growth are political and strategic. First, it is feared for its military implications; alarming figures are quoted of the relative growth of steel output, and so on, in the Soviet and N.A.T.O. blocs respectively. But this is surely a rather obsolete, pre-atomic approach to military affairs. Even if one really believes that the West will eventually be outstripped in total industrial output (which I do not), would this in fact revolutionise the balance of military power? This now rests partly on stockpiles of hydrogen bombs, partly on the rate of production and development of new atomic weapons (tactical as well as strategic), and even in the field of 'conventional' weapons on the rate of development of new and more refined weapons. There is no reason to think that progress in these more specialised and technical spheres is either a simple function of the behaviour of steel output, or is lagging badly in the West.

Alternatively, it is said that the faster Soviet rate of growth, and the more rapid rise in Russian living standards which this allows (at least in theory), will increase the relative attraction of Communism, and diminish that of free democracy, for the peoples of the under-developed areas, who will conclude that only under Communist planning can they attain the desired rise in their own

living standards. But the people of these countries will hardly judge the relative prosperity of Russia and the West by comparing small differences in their respective rates of growth, of which they will in any case not, for the most part, be aware. And by whatever impressionistic means they do judge it, I find it hard to foresee the day when British or American living standards will seem meagre and backward compared with those enjoyed in Russia.<sup>1</sup>

More seriously, it is argued that the ability of Russia and the West to give aid to the under-developed areas is a function of their respective rates of growth. Even if it were, I doubt if a slower Western rate of growth would have all the disastrous political consequences sometimes foretold. The choice in the undeveloped countries between a Western or Russian alignment may depend more on foreign political than on foreign economic policies – on the political ‘image’ of Russia and the West respectively which is built up in Asia and Africa. From this point of view, British policy in Cyprus or Kenya may be more significant than the exact amount of economic aid.

But this does not of course dispose of the argument for generous aid, which is essentially moral and humanitarian. The extent of our aid, however, scarcely depends in practice on the precise rate of growth. The amounts at issue are more limited than is often realised – limited both by the absorptive capacity of the undeveloped economies, and by their determination, on political grounds, to avoid relying too heavily on any one supplying country. No doubt even these limited amounts might prove too hard for the democracies if their economies were completely stagnant, so that the aid was directly at the expense of their own living standards (though Communist governments would suffer from no such inhibitions). To this extent a reasonable rate of growth is a necessary condition of sufficient aid. But all the Western countries are growing rapidly, and can easily afford the amounts involved out of the annual increment of output, with only a scarcely-noticeable fall in the *rate of increase* of their own consumption standards.

The amount of aid which in practice they make available

<sup>1</sup> And are not the people of the under-developed countries very interested in food supplies? If so, the suggestion becomes even more unlikely, since food production is the one sphere in which all observers concede that the Russian performance is infinitely worse than that of the free world.

depends much less on changes in their rates of total growth, than on three quite different factors: first, the political attitude of both governments and electorates; secondly, the degree of inflationary pressure; thirdly, the state of the foreign balance, and of external assets and liabilities. None of these is a simple function of the rate of growth. The first is probably the most decisive – if we fall behind, it is likely to be less on account of economic failure, than of a failure of political resolution and sagacity.

### III *The Factors Affecting Growth*

I therefore see no reason, in contemporary Britain, to make the maximum possible rate of growth the premier objective of socialist policy. If we maintain, or moderately increase, our post-war rate of growth, we shall be able, over a period, to accommodate all reasonable claims without excessive difficulty. A Labour Government should not, therefore, when economic efficiency conflicts with social or cultural values, automatically give preference to the former.

But some caveats must be entered here. First, this is only a statement of personal belief, which the electorate might not subscribe to. If consumption aspirations were to outstrip the rise in living standards, the voters might insist on electing only governments pledged to give further growth an over-riding priority.

Secondly, this view of the relative importance of growth of course applies only to contemporary Britain and similarly-placed countries. It has no relevance to any under-developed or impoverished country, where the overwhelming importance of growth may be taken as axiomatic: nor indeed to an advanced country which is stagnating, or at least not growing at a brisk pace. It is relevant only to countries where rapid growth is already occurring from a high absolute starting-point.

Thirdly, a Labour Government has not only to be diligent in safeguarding, and possibly, in view of the urgency of some of the social service claims on output, somewhat increasing our present rate of growth; but it has to do so within the framework of socialist policies in the non-economic field. The remainder of the book discusses how this may be done.

It is a truism to say that growth depends on many and various

factors, some economic, others political, sociological, historical, and so on. This is not a book about growth, and most of these factors are not discussed; readers are referred to Professor Lewis's recent treatise for a systematic analysis of the problem.<sup>1</sup>

But it is sometimes said that equality and rapid growth are hard to reconcile, the implication being that socialist policies must necessarily slow down the rate of growth. Now it is clear, as has been pointed out in previous chapters, that we still know too little about incentives to make firm statements on such matters; but *prima facie* the evidence does not support this implication. High rates of productivity-increase are now occurring in countries with completely different fiscal systems, rates of taxation, economic institutions, and distributions of income. Indeed it seems that modern technology, working within a framework of full employment and a general ideology of growth, has an intrinsic strength and vitality which makes for rapid expansion almost regardless of the institutional background. In any event, as was pointed out in Chapter XI, even if we take the narrow orthodox view of monetary incentives, this would still not affect most of the proposals put forward in Part Four, which impinge neither on earned income nor direct taxation.<sup>2</sup>

However, it is clear that some policies may hinder, and others favour, rapid growth, and that there must be some point at which equality begins to react on efficiency. The remaining chapters therefore discuss the economic implications of socialist policies. I make no attempt to deal even with every economic aspect of the problem—many have been thoroughly covered elsewhere; I have selected only the most controversial issues, and notably those which are most germane to socialist policy.<sup>3</sup>

The most obvious of these is the level of industrial investment. Now everyone agrees that a high level of investment is a necessary condition of rapid growth. The trouble is that we can never say exactly how high, or assert dogmatically that we are investing too much or too little, or that investment should be raised or lowered by  $x\%$ . Of course such judgments can easily be made

<sup>1</sup> *The Theory of Economic Growth*.

<sup>2</sup> c. Chapter XI, Section I.

<sup>3</sup> I do not discuss, for example, important as they are, the problems of higher technical education, the supply of trained research personnel, monopoly and restrictive practices, the improvement of export sales techniques, etc. Nor do I discuss foreign trade policy in any detail, as I have written on it at length in my *Britain's Economic Problem*.

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in extreme cases, as for example in under-developed countries where the rate of capital formation is manifestly too low to support the desired rate of growth of output.

But in an advanced country, already generously endowed with capital equipment, and spending a significant fraction of its national income on new net investment, it is hard to make definite judgments. First, it depends on the priority to be given to stepping up the rate of growth. Secondly, it depends on whether a faster rate definitely requires more capital investment, or whether it could equally well be attained by other methods (such as better incentives to managerial efficiency, or the elimination of restrictive practices, or better technical education). Thirdly, even if more investment is thought to be required, it depends on what relationship is assumed at the margin between capital creation and productivity.

Even if the first question is answered clearly, the second and the third can seldom be when we are discussing whether to move from (say) a 10% to a 12% rate of net investment. All one can say is the following. (1) There is something to be said for having a rather faster rate of growth than we now have, at least for the next decade. (2) Although higher industrial investment is not in theory, it probably is in practice, a condition of achieving this; the alternative methods are both less susceptible to government influence, and slower to take effect. (3) The belief that investment in Britain is too low receives some, though not conclusive, support from the fact that it is higher (as a proportion of the national product) in other leading countries.<sup>1</sup> (4) For what it is worth, most economists think that industrial investment, even after the sharp rise of the last two years, is still too low.

There is thus a *prima facie* case for raising the ratio of industrial capital formation to total output. In addition, we urgently need higher investment for some years ahead in our social capital, and also in roads. Even though, therefore, individual investment claims (notably housing) may decline, it seems not unreasonable to aim at a certain proportionate increase in total investment. How to combine this with socialist policies in other fields is discussed in the next two chapters. A subsequent chapter considers

<sup>1</sup> Although in terms of this proportion it appears to be higher in Britain now than it was in the inter-war years, and not significantly lower than it was in the immediate pre-1914 years. (v. F. W. Paish, L.C.E.S. *Bulletin*, December 1955.) It is also higher than it was three years ago.

the problem of wages under full employment. Further chapters discuss the role of nationalisation and planning.

But perhaps the first task for the Labour Party is *not* economic, but psychological. There are many in the Party whose minds are still attuned to the propaganda themes of the 1930s, and who still think that large gains wait to be exploited from further redistribution, or from the correction of various abuses identified with 'capitalism'. Not all sections of the Party have been equally courageous in preaching the facts of contemporary life to the rank-and-file; and a precondition of economic success is the education of the whole Labour Movement to the notion that further riches can only come through higher productivity.

## XIX

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### INVESTMENT, SAVINGS, AND INFLATION

#### I *The Pressures towards High Investment*

A HIGH rate of capital formation requires three conditions: first, a sufficient incentive to invest on the part of business executives; secondly, adequate funds to finance the investment; thirdly, available physical resources, that is, sufficient communal savings.

A deficiency of any of these might, at different times, be the main limiting influence on investment. It is obviously important to distinguish between them; though unfortunately they are often confused in public discussion. In most recent years, for example, the limit has been set by a shortage of savings, reflecting itself in a pressure on the physical capacity of the capital-goods industries; businesses have commanded ample finance, and indeed have been net lenders on a substantial scale.<sup>1</sup> Yet business leaders and City spokesmen were constantly complaining, against all the evidence, that investment was held back by a shortage of finance and risk-capital, allegedly stemming from high taxation.

Looking ahead, from which direction is the main limiting influence likely to come? I find it impossible to believe that in an advanced industrial country, boasting a highly organised and sophisticated financial system, it will come (at least for industry as a whole) from a deficiency of actual finance, or risk-capital. If, against all expectation, it should do, there are plenty of counter-measures open to a determined Government; these are discussed in the next chapter.

In the inter-war period the limit was normally set by the

<sup>1</sup> v. next chapter for details.



reluctance of businessmen to embark on new capital expenditures. With heavy unemployment and a depressed market for goods of all kinds, profit-expectations were characteristically pessimistic; and since existing capacity was commonly under-utilised, the incentive to expand was weak. The unemployment of course reflected the underlying fact that savings were 'excessive', in the sense that the community was releasing more resources from private and public consumption than industry was willing to absorb in new investment.

But the inter-war period can now be seen, in the perspective of history, to have been markedly abnormal in this respect; and the prospect for the years ahead appears to be altogether different. We have now enjoyed more than ten years of consecutive peacetime full employment – not only in Britain, but in most other major countries also. This suggests that a world-wide change in the economic climate has occurred. Its causes are many and various: the higher consumption and lower savings associated with the progressive equalisation of incomes, a more sensitive moral conscience about social expenditure, the much enhanced power of the Trade Unions, the stabilising influence of large Budgets with 'built-in stabilisers', the more rapid rate of growth of world population, and higher primary prices and hence a larger volume of international trade.

There is no sign that these influences are about to go into reverse; and the underlying pressures towards high levels of demand and employment may therefore be expected to persist. But even if these pressures should weaken somewhat, and the threat of deflation re-appear, their place will be taken by equally powerful political pressures. Electorates now believe that full employment can quite well be maintained, and are consequently in no mood to tolerate a failure to maintain it. Any Government which permitted appreciable unemployment for more than a short period would court certain defeat at the polls; and this acts as rather a strong inducement to governments deliberately to sustain, where this is necessary, a full employment level of demand.

And post-war experience, especially in the United States (where recessionary tendencies are naturally stronger than in Britain), supports the view that measures to maintain or restore demand are both practicable and broadly effective. The modern

economist's income-analysis (to the surprise of some economists) actually seems to work. It is true that *predictions* about the behaviour of different components of demand are still inexact and unreliable; and it is not always possible to prevent the initial occurrence of minor recessions.<sup>1</sup> But the significant fact is that these can now be quickly corrected, since demand has proved to be malleable, and in a broadly predictable manner, by fiscal policy (on the side both of taxation and expenditure), changes in consumer credit regulations, and to some extent even by monetary policy. The prosperity of the United States since 1945, maintained in the face of unceasing prophecies of imminent depression, and without calling into play such reserve weapons as public works programmes, is proof at once of the strong 'autonomous' pressures towards full employment, and the power of the modern state to reinforce these as necessary.<sup>2</sup>

In Britain, not only are both the autonomous and political pressures even stronger than in America, but the reserve demands which the Government could make effective are much larger. Some of these were listed in the last chapter – the needs of the under-developed areas, the urgent claims for higher social expenditure, the backlog of social investment, and so on; and even if none of these existed, taxation, which is high by historical standards, could easily be reduced amid general applause. There is no intelligent sense in which one can speak of a likely excess of potential output over potential demand in Britain in the foreseeable future.<sup>3</sup>

The effects of continued full employment on the rate of growth and economic efficiency are likely, on balance, to be favourable.<sup>4</sup>

<sup>1</sup> And of course in Britain these may be caused by export fluctuations over which the government has no control. Moreover the government itself may make errors, and provoke a minor recession by carrying anti-inflationary cuts in demand too far.

<sup>2</sup> And in the last few years employment in the U.S. has not been bolstered by any special factors such as the backlog of demand from the war, or rising arms expenditure – nor even by continuous Budget deficits. But of course none of this means that recessions will never occur – only that they need be neither deep nor persistent.

<sup>3</sup> Nor is the prospect significantly altered, as some socialists fear, by automation. Apart from the fact that this shows no sign of sweeping rapidly over the whole economy, it presents no new employment problem, different in kind from those which already exist; full employment can still perfectly well be preserved if Governments maintain total demand at the required level. I have discussed this point in detail elsewhere (*v. Automation*, London Press Exchange Papers, No. 1, May 1955).

<sup>4</sup> Even if they were unfavourable, it would not of course constitute a sufficient argument against having full employment. The social benefits of full employment are of far greater importance than the economic ones.

This is not only for the obvious reason that investment will be physically higher than during a period of depression, but also for more general reasons. It is an illusion to suppose that unemployment, because it (allegedly) strengthens incentives to work and the downward pressure on manufacturers' costs, is therefore necessarily beneficial to productivity. No doubt some downward pressure on costs is highly desirable – something is said on this later. But if the pressure is carried to the point where the level of unemployment becomes significant, the balance of advantage rapidly changes, since both labour and management take refuge in protective devices which have an adverse effect on costs.

On the side of labour, the instinctive reaction to unemployment is to resist the introduction of new machinery, and to spread the available work by 'go-slow' methods. The parallel on the side of management is a general flight into the security of cartel and market-sharing arrangements. Even where competition is nominally preserved, it increasingly takes the form of a drive less for the lowest costs or the highest efficiency, than for the greatest possible differentiation of the product from those of other manufacturers, and diversification of output in order to spread risks. The consequence is diminished specialisation and diminished standardisation: in other words, short production runs, and the sacrifice of the potential advantages of large scale. That this is bad for efficiency has been clearly shown by the numerous Anglo-American Productivity Reports which fastened on precisely these characteristics of British industry, which are partly a legacy of pre-war unemployment, as one of the major reasons why British productivity was not higher.

Under full employment, all these pressures are reversed. There is less temptation to restrictive market-sharing arrangements, and less need for defensive sales and output policies. The buoyant level of demand stimulates not only the direct expansion of capacity, but also more audacious risk-taking, more rapid technical innovation, and a greater expenditure on research. Moreover, the shortage of labour acts as a powerful spur to more economical methods of production and the instalment of labour-saving machinery. On the side of labour the enhanced security of employment, although it undoubtedly creates some difficulties in the field of labour relations and discipline (e.g. in industries such

as building),<sup>1</sup> nevertheless weakens the attraction of restrictive practices, and fosters a greater willingness to accept technical change.

But the most significant change is in the sphere of investment decisions. It is not simply that investment will be currently higher than in an under-employed economy, since the transition from depression to boom will seldom be accomplished without the help of a rise in investment: but the inducement to a still further expansion will also be strong.

This is partly for obvious economic reasons. Decisions about investment, in public as well as in private industry, are based on expectations about future demand, prices, and profits; and these in turn are influenced by the level of current demand and current profits. With the economy producing to full capacity, not only are current profits high; but because full employment leads, for the reasons just mentioned, to a healthy rate of increase in productivity and hence in personal incomes and consumption, they will tend to advance, and with them expectations about the future, with every year that full employment continues. The result is a constant tendency for investment plans to be revised upwards, and for the level of capital formation to increase.

Of course these optimistic expectations depend wholly on the conviction that full employment will be maintained, and will not at a certain stage give way, as it invariably has done in the past, to a cyclical depression. For some time after the war this conviction was far from being universal. Most businessmen imagined that they were simply caught up in a conventional post-war boom, to be followed by a conventional (though unusually long-delayed) post-war depression. The curtailment of many investment plans in 1952-3 reflected a fear that the minor

<sup>1</sup> Though to listen to employers' complaints about 'slackness' and 'insubordination', by which nothing more is often meant than a less docile demeanour on the part of workers, one would think that the post-war British experience in this respect was unique. But of course this change in attitudes always accompanies prosperity. 'Sir,' exclaimed Dr. Johnson, dining at Mr. Scott's, 'subordination is sadly broken down in this age. No man, now, has the same authority which his father had - except a gaoler. No master has it over his servants; it is diminished in our colleges; nay, in our grammar schools.' On being asked why this was, and after attributing it first to the coming in of the Scotch, Dr. Johnson went on: 'Why, Sir, there are many causes, the chief of which is the great increase of money. The shoe-black at the entry of my court does not depend on me. I can deprive him but of a penny a day, which he hopes somebody else will bring him; and that penny I must carry to another shoe-black; so the trade suffers nothing.' (*Life*, 1867 ed., p. 333.) The parallel is exact.

recession of those years might be only a harbinger of the long-awaited post-war slump.

But the persistence of full employment for more than a decade of peace has now largely cured the depression psychosis which dominated industrial attitudes, with such insidious results, in the inter-war period. The business community accepts the fact that prosperity is here to stay, not only because full employment will be maintained, but also because we have entered a period of rapid growth in personal incomes and consumption. Indeed, the depression psychosis has given way to its opposite – an obsession with inflation. This too little noticed revolution in business psychology is the most important economic event of our generation; and its implications for the rate of capital formation are too obvious to need underlining.<sup>1</sup>

These economic pressures are fortified by more subtle social pressures. The country now accepts, in a way that was impossible in the pre-war era of excess capacity, the need for rapid growth, and for high investment to attain it; and these have become accepted national aspirations. Successive Chancellors, all political parties, City opinion, weekly journals, economists, and even less elevated publicists, all preach to industry that it has a patriotic duty to invest, and praise it when it does so.<sup>2</sup> It would be hard to find a top management to-day which was ignorant of, and had no conscience about, the oft-quoted unfavourable comparisons between the British, and the German or American, rates of capital formation. It is a mistake to assume that a social consensus of opinion of this sort has no influence on economic decisions – it has, and the fact that expansion is now 'the done thing', and applauded on all sides, is a significant inducement to business growth.

This influence communicates itself to the *personal* motives of industrial executives. I have already argued in Chapter I that with the transition from family to joint-stock enterprise, the growth of the firm has partly replaced personal consumption as the basic motive and rationale of business behaviour, and that this stimulates a policy of heavy ploughing-back and re-investment

<sup>1</sup> And we must remember that scarcity in the labour market creates an additional inducement to new investment.

<sup>2</sup> Or at least until Conservative Chancellors, through flabby Budgetary policies, let the whole situation get out of hand, and then have to impose investment cuts.

of profits. Now that rapid expansion has become a national and not merely an occupational goal, the prestige of a firm, and so of its executives, rests even more completely on its rate of growth of output and profits, and on the periodic announcement in the financial Press of ambitious new capital projects or technical innovations. This naturally exerts a strong influence on the investment attitudes of managements. It is often said that the expansion of capitalism in the nineteenth century was fundamentally the product not of any set of economic institutions, but of the 'entrepreneurial' psychology of the capitalist. Whether or not this is true, it seems clear that the modern top management team (in nationalised as well as private industry), though from different motives and acting within a different social and institutional framework, often has an equally thrusting and expansive group psychology.

It is, of course, always imprudent to dogmatise about economic trends. What the position will be in the long run, no one can say. Even in the short run, it may be that industry and governments<sup>1</sup> will not be willing to invest up to the limits which the supply of savings and risk-capital makes possible; and in that case we shall need measures to stimulate demand. But if one has to hazard a guess for the next decade, it seems more likely that in a democratic, semi-egalitarian, full-employment economy of the post-war British type, investment incentives will remain buoyant, while on the other side the tendency will be towards high consumption and inadequate savings. The supply of savings will then constitute the effective limit on the level of capital formation; and the rate of growth will depend mainly on the community's willingness to set aside a sufficient proportion of its income for future accumulation.

## II *The Threat of Inflation*

Sufficient savings are necessary not only for economic growth, but also to preserve stability. This was not the case before the war, when instability had nothing to do with inadequate savings, but was the result of cyclical fluctuations in investment; and

<sup>1</sup> The latter being under equally heavy, though quite different, pressures towards high investment, e.g. in the field of social capital or roads.

when indeed the persistence of secular under-employment even through the boom was basically a symptom of excessive savings.

To-day the secular under-employment has disappeared, for the reasons given in the previous section. But it does not follow that the trade cycle has also disappeared. One might still have deep fluctuations in investment, even though the trend-line round which they occurred, and hence the average level of employment through the cycle, were much higher. Yet I believe that the cycle in its classical form – in the form, that is, of deep and rhythmical fluctuations – is unlikely to reappear in Britain. Not only are governments both more competent and more anxious to suppress it, should it show signs of re-emerging, but investment itself is tending to take on a rather more stable character. Over one-half of total capital expenditure is now incurred by public authorities (central and local government, and the Nationalised Boards); and this large component, although sometimes rather unpredictable in its behaviour, is at least not liable to fluctuate directly in response to short-term cyclical changes in profit expectations. Even in the private sector matters are slowly changing. Deep investment cycles presuppose, first, that most capital projects are physically capable of being postponed and resumed, curtailed or augmented, easily and at short notice (as might be the case if investment consisted mainly of purchasing single machines): and, secondly, that decisions about investment are taken in the light of short-term cyclical expectations.

Neither of these is as true as formerly. Physically, investment is increasingly a matter of major expansion schemes, the result of long-range planning for several years ahead, and involving simultaneous and co-ordinated expenditure on plant, machinery, factory building, and research. Such schemes are often too indivisible to be easily curtailed, too large to be lightly foregone, and too lengthy in execution to be cut off at short notice. And decisions about investment also take on a more and more long-range character, not only on account of these physical factors, but also because psychologically businessmen now pay more attention to the long-run sales outlook and less to short-run market changes; and because, in addition, the rate of investment in many industries is almost dictated by the pace of research and technological change. Thus long-run capital budgeting, based on expectations about the fairly distant future, is becoming increasingly common;

and although this certainly does not rule out sharp fluctuations, such as occurred, for example, in 1955, it does make the recurrence of a deep, classical trade cycle rather unlikely.

Stability is now almost as much threatened from the opposite direction; that is, by fluctuations in savings leading to periodic crises of inflation. Full employment is necessarily divided by only a narrow margin from inflation; and in a democratic country with free Trade Unions, recurrent appeals to the electorate, and rising standards of consumption, this margin is in constant danger of being crossed as a result not only of changes in investment, but equally of sudden changes in savings and consumption. These may be caused on the one hand by the Government, and take the form of a decline in net public saving due to an excessively popular Budget: and on the other hand by the decisions of consumers. The latter possibility becomes more likely as rising consumption increasingly takes the form of expenditure on durable goods, the purchase of which can always be either accelerated or postponed; and this growing 'lumpy' element in consumption makes fluctuations in personal saving and spending almost inevitable.

Each time a sudden decline in saving occurs, and the margin is crossed, a minor crisis ensues, reflected perhaps in a fall in the exchanges and a drain on the reserves, and certainly in lengthening delivery-dates for goods; and the reaction of most governments is to cut that element in total demand which seems most easily under control, namely capital investment. Thus, by a curious irony, a second (though highly irregular) investment cycle appears in the planned economy, caused by the panic response of governments to sudden increases in demand.

These periodic attempts to cut investment, although only partially successful owing to the long-term nature of many capital projects just discussed, are clearly not good for growth. Not only do they interrupt and delay the immediate process of investment, but they may have psychological effects which slow down the future rate of growth even after the immediate crisis is over. As was pointed out above, rapid growth requires a confidence that the existing rate of growth will be maintained, and a climate of opinion in which investment is assumed to be thoroughly desirable. Both these are threatened by periodic announcements of investment cuts.



It is sometimes argued that an occasional tendency to demand-inflation does little harm, and that the sensible way to deal with it is simply to allow the reserves to take the strain – that, after all, is what reserves are for – instead of attempting to reduce demand by cutting back investment. Matters will then gradually right themselves through a continued rise in productivity; and a certain instability of the exchanges is a small price to pay for the overwhelming advantages of driving the economy at top speed. Even ignoring the severely practical objections that our existing reserves are quite inadequate to fulfil this role, and that a rise in productivity cannot be guaranteed by itself to remove inflation, how true is it that demand-inflation does no damage?

Now to run the economy flat out, as was argued above, is unquestionably not only on balance beneficial to productivity, but an absolute condition of high investment and rapid growth through its repercussions on business confidence. Demand must therefore be kept very high indeed. Nevertheless, there is a point at which flat-out full employment is converted into definite excess demand and inflation. When this occurs the balance of advantage shifts, and the losses begin to outweigh the gains.

This is not, it is true, a point which can be either accurately defined in theory, or exactly identified in practice. It gives a false impression to speak of a 'razor's edge' between full employment and inflation, as though these were both precise concepts, and the productive system had no elasticity of output.<sup>1</sup> Nor, even if the critical point could be defined in theory and recognised in practice, are planning techniques so subtle and refined that demand could be exactly set, as though by a thermostatic control, at just the right point.

Yet one can make broad, impressionistic judgments which are not meaningless. It is not absurd to say that full employment has turned into inflation if demand can be seen to exceed supply at current prices in the majority of important markets – if, that is, markets for goods are characterised by lengthening delivery-dates and waiting lists, with a clear upward pressure on prices, and the market for labour by a rapidly growing excess of vacant jobs over applicants.

When this occurs, certain adverse consequences follow. First,

<sup>1</sup> v. P. D. Henderson, *Bull. Inst. Stat.*, May and June 1954, for a discussion of this point.

managerial efficiency may deteriorate. Here, as always in this field, there is a golden mean. Deflation and unemployment are clearly bad for efficiency, for the reasons explained in the previous section. But at the other extreme, heavy excess demand tends to breed a general carelessness about costs. With a long waiting-list of customers, profit margins can be all too easily maintained in the face of rising costs by an increase in selling prices; and even if neither costs nor prices are actually rising, there is no competitive pressure to *reduce* costs if demand greatly exceeds supply.

It is often said that the crucial psychological difference between British and American businessmen lies in their respective attitudes towards expansion. I doubt if this is true to-day. I believe it now lies rather in the sphere of cost-consciousness. American managements are engaged, to a far greater extent than their British counterparts, in an unceasing search for lower costs – through labour-saving machinery, the rapid introduction of automation, the study of personnel management, and the almost mass employment of all manner of specialists from scientists to input-output experts.<sup>1</sup> No doubt part of the difference is to be explained by historical factors. But part is surely due to the fact that American business, faced *even in non-recession years* with less inflation of demand, has been under a forcible pressure to look for sales; and British industry has not (at least to the same extent). Full employment need not, but excess demand inevitably must, exclude some competitive pressure to sell, and hence to attend to costs.

Secondly, excess demand may weaken the incentive to export.<sup>2</sup> This is a familiar point, of which too much was made in the post-war years when economic conditions were, for structural reasons, so wholly exceptional, and the required increase in exports so large and rapid, that no practicable changes in home demand would have made much difference. But to-day the picture has altered. The post-war export targets have been substantially attained, and

<sup>1</sup> Not to mention psychiatrists to help maintain the mental stability of top executives, and sociologists to help in market research. One large American automobile firm, for example, hires academic sociologists to discover whether any conspicuous (and therefore potentially lucrative) 'status gaps' exist in the hierarchy of cars.

<sup>2</sup> Of course its most immediate effect on the balance of payments is on the side of imports – both generally in raising demand for all types of imports, and specifically by compelling the importation of marginal supplies of essential goods, the home output of which cannot be quickly expanded (e.g. coal and steel). But I am assuming that at least the general 'income' effect on imports can be counteracted by import controls without the need to cut down home demand.

even in bad years the foreign balance is only narrowly separated from a reasonably healthy surplus – it is a 10% rather than a 70% increase in exports which is needed even in a ‘crisis’ year. Thus a comparatively small change in the volume of exports makes all the difference between an adequate surplus and a dangerous deficit.

Now the volume of exports is certainly not violently susceptible to changes in home demand. Firms have built up their export connections and sales organisations to the point where their entire sales and output policy is now attuned to, and depends on, a generally high volume of foreign sales. But *at the margin* the level of home demand is certainly important. If firms are both working to capacity and faced with long waiting-lists at home, why should they bother to *increase* their exports? And if exports fall off in some especially competitive foreign market, why not absorb the frustrated exports into home sales rather than make painful and hazardous efforts to maintain the volume of sales abroad? It is hard to believe that the greater sales efforts of German and U.S. car manufacturers, for example, have had nothing to do with the more competitive nature of their home markets, which could not be relied on always to take up any slack in foreign sales.<sup>1</sup>

Even if there is no effect on the incentive to export, the lengthening of delivery-dates itself causes a loss of export orders as dissatisfied foreign customers turn elsewhere. A fully-employed economy can probably never offer *immediate* delivery of all capital-goods – there will always be some excess of demand over supply in the investment-goods sector. But this can be either greater or less; and when it becomes too great, the effect on exports may be exceedingly serious. Indeed changes in the (relative) volume of exports in recent years have commonly been a function less of changes in relative price or quality, or the behaviour of wages, than of the degree of sales effort exerted, and the delivery-dates offered; and both these are necessarily affected by the presence or absence of demand-inflation at home.

Thirdly, however, excess demand in the labour market may also have a damaging effect on prices by inducing a wage and price spiral.<sup>2</sup> This is discussed in detail in Chapter XXI, where it

<sup>1</sup> Though the British motor industry, for the first time since the war, has now suddenly found itself in the same position.

<sup>2</sup> Though the first effect in the labour market is always to intensify the shortage of miners.

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is argued that rising wage-rates may be neither so undesirable nor so dangerous as people often assume, and also that there are other possible causes of wage-inflation apart from excess demand. Nevertheless it is obvious that a demand-inflation may easily cause a dangerous degree of wage-inflation.

None of this means that as a matter of past history inflation was the major cause of our post-war difficulties, or that more disinflation would have had any appreciable effect on the exceptional structural problems created by World War II and the Korean War. Nor does it mean that the mere avoidance of inflation is a sufficient condition for economic progress. It simply means that under normal peacetime conditions, progress and efficiency require, amongst other things, the avoidance of periodic crises of serious excess demand (though it may be that a continuing mild inflation is inseparable from full employment).

Thus considerations of stability, as well as of growth, direct attention to the central role of savings, and to the responsibility of the Government for securing a volume of savings sufficiently steady to avoid inflationary crises, and sufficiently high to sustain the desired long-run rate of capital creation.

### III *The Supply of Savings: (a) Personal*

There are three sources of savings: individuals, companies, and the public authorities.

The personal net savings of individuals now consist mainly of contractual savings (insurance premiums,<sup>1</sup> superannuation payments, and repayments of building society mortgages) and the business savings of the self-employed. After being at a low ebb for several years after the war they have now revived considerably – from under £100 millions even in 1950 to approximately £900 millions in the last few years.<sup>2</sup> Although several plausible reasons (such as the completion of personal re-stocking after the war) can be advanced to explain the change, it is not possible to explain it with any certainty, since the distribution of savings is characterised by a very long tail. The great majority of families save or dis-save only small amounts, and significant changes in the total

<sup>1</sup> Seventy per cent of families pay some form of life assurance premium.

<sup>2</sup> *National Income and Expenditure, 1955* (H.M.S.O.), Table 45.

can be caused by the decisions of the small minority of heavy savers or dis-savers.<sup>1</sup>

But in any event, despite the recent improvement, personal savings are not likely to regain the central position which they held a generation ago. The greater equality of incomes, the cessation of the rise in population which caused savings against old age to exceed liquidation during old age, the decline of the small entrepreneur relying for expansion on his personal savings, the greater security provided by the social services – all these influences make it unlikely that we shall see an early or rapid rise in the volume of personal savings. Some absolute increase will no doubt occur as incomes rise; but no significant change in the savings ratio is to be looked for under existing social and economic conditions.

Should anything then be done to alter these conditions? Of course we must not be taken in by the semi-mystical talk which often emanates from the City and the political Right, and which seeks to suggest that personal savings are somehow more fruitful and productive than other forms of saving. This is naturally not the case – especially as so high a proportion of them are in practice channelled through cautious institutional bodies. Nor must we think that a low ratio of personal savings is unique to Britain; net personal savings, after the deduction of personal investment, are scarcely higher as a proportion of personal income in the U.S. than they are in Britain.

The most effective method of securing a large increase in personal savings would naturally be to increase the inequality of net incomes. This is the inevitable result, as indeed it is the purpose, of the Conservative policy of encouraging personal savings by remissions in direct taxation.<sup>2</sup> To be effective, this policy requires an equivalent cut in government expenditure (which in practice

<sup>1</sup> The figure of net personal saving is a comparatively small balance between a large volume of saving and a slightly smaller volume of dis-saving. About 60% of the population save something, 30% dis-save, and the rest do neither. Broadly, the propensity to save increases as income rises. Net dis-saving occurs in the lowest income-groups (which are heavily weighted with retired or unoccupied people with low incomes but some assets). But from a gross income of £800 p.a. upwards, the average amount saved rises with income. Above £2,000 p.a., however, the dispersion becomes particularly marked; although this group shows the highest average savings figure, it also includes some very heavy dis-saving. (v. L. R. Klein, *Bull. Inst. Stat.*, May 1955, Tables III and IV.)

<sup>2</sup> Though such remissions will often not increase *total* savings at all, since they may well be at the expense of government saving.

means the social services), and a concentration of the tax remissions on those most likely to put some part of them aside in personal saving, namely the rich. This is not a solution calculated to appeal to socialists. Of course equality poses a problem of personal savings. But this is not a reason for jettisoning equality; our business is to find remedial measures, not give the problem up in despair.

The most promising remedial measure, which does not require us to surrender equality of incomes, lies in encouraging the strongest of all motives for personal saving, the precautionary motive. Although this may have been temporarily weakened by the growth of social security, there are signs that it is again becoming stronger. Rising standards during working-life cause people also to raise their aspirations for old age; and they increasingly wish to supplement the State old-age pension by an additional provision. This explains the rapid spread of private superannuation schemes. A previous chapter has already proposed, on grounds of equity between individuals, that a National Superannuation Scheme should be introduced.<sup>1</sup> If this were to be run on actuarial principles, it would show a large surplus of income over benefits during the early years; and although this surplus would gradually diminish as more and more contributors came to retiring age, it would not disappear for some 30 years, by which time the build-up would be complete. But the early years of heaviest surplus would coincide with the period in which the once-for-all investment demands, described in earlier chapters, were also at their heaviest. We have here an important possibility of combining social justice with economic advantage to the nation.

It is sometimes suggested that we should give additional incentives to saving for private house-purchase. (More than 10% of households already save by way of mortgage payments.)<sup>2</sup> But there are certain drawbacks, both social and economic, to very widespread small freeholds. Not only do small private owners often fail to save against the depreciation of their asset, but the heaviest mortgage commitments tend to come when the children in the family are costing most, and the parents' income has not yet reached its peak. Most experts in this field are therefore rather against any wide extension of mortgage saving.<sup>3</sup>

<sup>1</sup> *v.* Chapter VII, Section VII.

<sup>2</sup> *r.* Hill, *loc. cit.*, Table XVIII.

<sup>3</sup> *v.* Fabian research pamphlets on housing by James McColl, M.P., and David Eversley.

Non-institutional personal savings could be encouraged either by paying a higher rate of interest on selected forms of national savings, or by guaranteeing the principal against a fall in the value of money, or, most effectively, by exempting some part of saved income from income-tax.<sup>1</sup> There is no doubt about the efficacy of the last method, as recent German experience has shown; the difficulties are first that if carried beyond a certain point most people would judge that the tax system was becoming inequitable as between savers and non-savers, and secondly that the rich might gain too large an advantage.

Nevertheless our economic situation might now justify some general tax concession to savings, going beyond the present interest-reliefs such as the exemption from tax of accruing interest on Savings Certificates (subject to a maximum limit on the amount held by any individual). Thus this concession might be extended to the actual capital: that is, that part of current income which was used, up to a maximum limit, to purchase a specially-created form of savings certificate could be allowed as an offset against income-tax. The sums thus saved would accumulate, as now, at tax-free interest until they came to be withdrawn, when they would be added to the taxpayer's assessable income for the current period.<sup>2</sup> If our economic affairs are to be continually plagued and bedevilled by inflation, the Labour Party should seriously consider such a reform. To the extent that it was effective, it would have the additional advantage of encouraging property-holding amongst the working classes.

#### IV *The Supply of Savings: (b) The Nationalised Industries*

But a clear onus will in any case fall on the government to compensate for the decline in personal saving by greater saving of its own. There are two main spheres in which public savings are or could be generated: the nationalised industries, and the

<sup>1</sup> Since this was written, some concessions to small savings have been made in the 1956 Budget. But they apply only to the first of the three methods mentioned in the text.

<sup>2</sup> A proposal along these lines was made to the Radcliffe Commission by Professor Tress, and also by Mr. Kaldor in a letter to the *Observer* on 1 January 1956. Mr. Kaldor has also made, in *An Expenditure Tax*, a much more radical proposal for exempting savings from tax at the opposite end of the scale (that is, amongst surtax-payers).

Budget. So far the first of these has contributed nothing. This has been due to the pricing policies laid down by successive governments. The nationalisation Acts enjoin the Boards to cover their costs on the average of years, aiming at a fairly exact balance over a period between receipts and disbursements.<sup>1</sup> This policy has severe disadvantages, which may well react on the national rate of growth. For the industries themselves, the lack of any substantial surplus creates a condition of constant financial stringency. This has often meant low salaries, with a corresponding loss of efficiency: too little research and experiment: and a general atmosphere of caution due to the fear of slipping into the red.<sup>2</sup> Thus one of the major advantages of large scale, that it permits a heavy expenditure on research and a spreading of risks, is largely thrown away.

This policy also leads to an inefficient use of scarce resources. The public sector is mainly engaged in producing goods and services which are basic to the whole economy, and many of which, in recent years, have been in short supply. Britain alone has perpetuated the absurd fiction that the sensible policy is to sell such commodities, if not actually below their cost, at a bare cost-price which has no relation to market conditions. Of course a case can occasionally be made on welfare grounds for selling a commodity at an artificially low price (e.g. milk). But no such argument could be used in the case, for example, of coal. (Nor can an argument be made on distributive or hardship grounds, since any distributive effects of a higher price could be corrected by changes either in taxation or social expenditure.) And the economic case against a low price for coal was overwhelming. It has been so scarce in relation to demand as constantly to place the foreign balance in jeopardy, and to threaten the prospect of rapid industrial expansion; yet it is, by common consent, most wastefully used, with the possibility of large economies if a sufficient inducement were provided. Under these circumstances there was nothing to be said for selling it at a price which in no way reflected its scarcity value.<sup>3</sup>

<sup>1</sup> For a full discussion of this question, see my article on 'Prices and Costs in Nationalised Undertakings', *Oxford Economic Papers*, January 1950.

<sup>2</sup> This is especially true of coal and the railways; it is not true of electricity or civil aviation.

<sup>3</sup> cf. I. M. D. Little, *The Price of Fuel* (O.U.P., 1953), and the Report of the Ridley Committee (Cmd. 8647). Recent increases have in fact brought the price much nearer to an economic level.



But the immediately relevant consequence of this pricing policy is that savings in the public sector of industry must be zero (if not negative). It follows that total national savings are not only lower than they need be, but are concentrated either in private industry or, through higher taxation, in the Budget surplus. It would be much better if public industry were to show substantial positive savings, in order either to increase total savings, or to relieve the strain on the Budget, or to ensure that a higher proportion of savings accrued in public rather than private hands. This would simply require that public Boards were allowed the same latitude as private firms to set their prices in accordance with market conditions, and to accumulate reserves. No doubt such a policy would be unpopular, not least on the Left, where the main defence of nationalisation has been that prices have risen by less than the average; nor is it without practical difficulties (e.g. in relation to Trade Union wage attitudes). But the overwhelming logic of the proposal may be seen by considering the possibility of further nationalisation. It is surely not proposed to nationalise private industries now ploughing back huge sums each year, and then to amend their price policies in such a way as to destroy these annual savings? This would simply necessitate higher taxation, or still higher profits in the remaining private sector, to make good the loss.

#### v *The Supply of Savings: (c) The Government*

So far as the government is concerned, there are two aspects to be considered: first, the contribution of net government saving to long-run economic growth; secondly, the role of fiscal policy in ensuring stability.

A reasonable rate of growth might call for a level of net government saving not markedly different, as a proportion of national income, from the present level; while a really rapid rate of growth would probably call for an increase in the ratio of government saving to national income. If we are to avoid an increase in the proportion of income taken in taxation, even the first and more modest condition requires that government expenditure (in real terms) should not grow faster than the national income; while the second would require a fall in expenditure relative to national income.

The prospect for future government expenditure was discussed in Chapter VI, and the conclusion reached that an absolute rise was certain, and that the pressure for a rise even relative to the national income was considerable. If the latter were to occur, an increase in the proportion of income taken in taxation would be required to prevent a fall in net government saving, with adverse consequences even for the present rate of growth. Similarly it might be called for, even if this did not occur, if we wanted higher (relative) government saving in order to accommodate a more rapid rate of growth.

Now any really substantial increase in taxation would probably be ruled out, if only by political considerations. Socialists sometimes forget, in a natural enthusiasm for the benefits which higher expenditure will bring, just how unpopular high taxation is. If the Labour Party were to be generally credited, however unfairly, with a macabre desire to squeeze ever-larger sums out of the public, it might fall rather badly in public estimation, and not be given a chance to implement its plans in office.

Moreover there are economic limits to the level of taxation, and especially of direct taxation. We may even have been within sight of them during the exceptional post-Korean conditions of 1951. These limits are certainly much higher than is assumed in the conventional City or business talk, even when this is embellished by such magisterial pronouncements as that of Mr. Colin Clark that if taxation exceeds 25% of net national income a hopeless inflation must ensue.<sup>1</sup> Such talk was pure exaggeration, as the actual behaviour of output showed. But this does not mean that we have a completely free hand to put up taxation as much as we like, even ignoring political considerations. Direct taxation of marginal earnings must at some point exert an adverse effect on incentives; and moreover higher direct taxation soon becomes ineffective as a means of increasing savings, since the richer classes simply maintain their consumption by realising capital assets.

<sup>1</sup> *Economic Journal*, December 1945. The figure of 25% is based merely on a number of alleged historical analogies. It is not always realised that a high level of post-war taxation was not unique to Britain, but was the rule in most similar countries. In 1951 the British Government took 32% of the gross national product in taxation. In Holland the figure was 28%, in Norway and Sweden 27%, U.S.A. 26%, and Canada 24%. The reasons for high taxation were broadly the same in each case: much enlarged government expenditures on defence and social services, and the need for high public savings under conditions of full employment.

Similarly there are limits to the indirect taxation which a Labour Government could impose. This is not, as socialists used to assume, because it is necessarily regressive. It is perfectly possible, as the purchase-tax has shown, to impose a proportionately higher excise on articles of middle- and upper-class consumption than on articles of working-class consumption; and in theory one could make a system of excise duties as progressive as one liked.<sup>1</sup>

The limits are set, rather, by political and economic considerations. As soon as the total sum to be raised is at all large, it must, given the present distribution of consumption, be found mainly at the expense of working-class incomes. Moreover increases in indirect taxation are also most unpopular, and may be frustrated by electoral repercussions. And, lastly, they may stimulate or aggravate a cost-inflation if the working class attempts to maintain its net real income by enforcing compensating claims for higher money-wages.

Of course taxes could be higher than they now are.<sup>2</sup> Some of the Tory cuts in direct taxation might be restored; and there are some indirect taxes which could be higher than they are to-day. But it is wrong to think that there is an indefinitely wide room for manoeuvre here, especially as the taxes which have been canvassed in previous chapters on distributive grounds – a gifts tax, higher death-duties, a property tax, a capital gains tax, and a heavier discrimination against unearned income – would none of them contribute much to net government savings. To a large extent they would be paid out of existing capital assets, and so would not significantly reduce private consumption (at least in the short run). Moreover it has to be remembered that there is always strong pressure, and there are often strong

<sup>1</sup> Even the Romans realised this, and laid a higher rate of customs and excise duties on luxuries than on necessities. But then they had very bold and flexible ideas about indirect taxation, extending even to putting a tax on eunuchs. (*v. Gibbon*, 1909 ed., Vol. I, p. 176.)

<sup>2</sup> The most obvious (and desirable) way of increasing the net yield of taxation would be to do something about business expenses, which have now become a simple and widely-used method of tax avoidance. No doubt there are practical difficulties in the way of effective reform. It is not easy to sift the genuine from the bogus, the lunch which wins an export contract from one which serves only as excuse for agreeable chit-chat. But the problem must be faced. The expenses racket is the one glaring exception to the rule that the British are, in matters of finance, the most law-abiding, honest and disciplined people in the world. We like to laud it smugly over other countries, claiming much higher standards of civic probity; but we have little right to do so as long as we allow the present position to continue.

arguments, for reducing some existing taxes at the same time as new ones are imposed.<sup>1</sup>

The moral of this for the Labour Party is clear. Since there are limits to the amount of additional revenue which the Government can raise, both the attainment of a rapid rate of growth and the avoidance of inflation (not to mention the winning of elections) require that the Party should show some restraint in its election promises, and should have a clear view of its priorities in the field of government expenditure. Naturally increases in social expenditure will be possible as output rises; and in a decade or so the worst of the problem may be over. But the next Labour Government at least must move prudently in this field.

## VI *Monetary Policy*

As an instrument for maintaining stability and controlling short-run demand, the Budget has an asymmetrical character, being more effective in one direction than the other.

It is easy to raise demand through the Budget, and especially consumers' demand, either by increases in expenditure or reductions in taxation. It follows not only that the Budget would, if it were called on to play this role, be a most powerful anti-depression weapon, but also that the wrong Budget at a time of full employment can only too easily create or intensify a process of inflation.<sup>2</sup> Thus the negative importance of the Budget as an anti-inflationary device is crucial.

But its positive power to cure an inflation by enforcing cuts in private demand is, for the reasons just given, more limited. This applies especially to consumers' demand. These reasons are both political – the tax increases may be frustrated, as in 1951, either by the defeat of the Government at the polls or by bitter disputes within its ranks: and economic – they may be neutralised, even if they find their way on to the statute-book, by the counter-action of taxpayers either in selling private assets or raising money-wages. Thus although taxation should theoretically be a variable in the Chancellor's calculations, he is sometimes compelled to

<sup>1</sup> cf. the continuous pressure, from the Labour as well as the Conservative Party, to reduce purchase-tax and to increase the various income-tax allowances.

<sup>2</sup> As the pre-election 1955 Budget undoubtedly did.

treat it almost as a constant; and his power of manoeuvre is limited by this partial inflexibility, in an upward direction, of existing tax rates.

It is true that the Budget is a more effective weapon for reducing investment expenditure. As the next chapter shows, the combination of investment allowances and profits taxes can be used to influence both the savings and investment decisions of private industry; and a Chancellor is in a position, if he wishes, to secure quite a sharp reduction in investment demand. But of course this is not the object of the exercise, which on the contrary is to permit a rapid rate of growth based on a high level of investment. It is consumption, not investment, which should preferably be controlled; and here Budgetary policy is subject to definite limitations as an instrument for stabilisation.

The obvious alternative, or supplementary, instrument is monetary policy. This was not much used by post-war Labour Governments, which indeed started with a strong ingrained prejudice against 'dear money'. This was due partly to memories of the high Bank Rate and mass unemployment of the 1920s, partly to a suspicion of any methods which smacked of the price-mechanism and a market economy, partly to anxiety about the cost of the National Debt, and partly to a traditional (and reciprocated) distaste for bankers and all their ways. Many people in 1945, moreover, feared a post-war slump on the 1920-1 model, and wished to guard against it by monetary expansion.

For some time after the war the Treasury therefore pursued a deliberate cheap money policy; and even when this was abandoned, no conscious attempt was made to raise interest rates, nor were efforts to control the volume of credit by other means particularly efficacious. Successive Chancellors wrote appealing letters to the banks, asking for restraint in the granting of loans; successive chairmen of the banks wrote back saying that they would do their best. But this exchange of courtesies had no visible effect on the volume of credit, and particularly of advances, which continued to rise at a brisk pace.

Now undoubtedly cheap money brought advantages. It reduced the cost of servicing the National Debt, and eased the financial problems of local authorities. Moreover the Labour Party was right to resist the orthodox City views. Low interest rates and ample credit were not the main cause of inflation in the

## INVESTMENT, SAVINGS, AND INFLATION

exceptional post-war years, when no practicable rates of interest could have eliminated inflationary pressure: nor, more generally, are rates of interest an automatic regulator of savings and investment.<sup>1</sup> It was also right to insist that any attempt to combat inflation exclusively by monetary policy would bring a balance not by encouraging savings, which are insensitive to changes in interest-rates, but by discouraging investment.

Nevertheless, monetary policy can and should play some part in combating inflation. We do not want a continuous credit expansion pulling in the opposite direction to the rest of Government policy, and always tending to raise demand when the Government's best efforts are directed to reducing it. This only throws an additional burden on the Budget surplus and physical controls, and may in particular necessitate an abnormally heavy increase in taxation which, for the reasons given above, may be self-frustrating as an anti-inflationary measure, besides having other obvious drawbacks.

Credit restriction can be particularly useful in two directions. First, it encourages economy in stock-usage, and in particular reduces the incentive to stock-build if inflation is thought to threaten. Considering the decisive role which changes in stocks more than once played in the post-war balance of payments crises, and how little susceptible they proved either to government exhortation or physical control, this is a matter of some importance. Secondly, it induces some reduction in consumption, and notably the consumption of the better-off classes, by causing a fall both in Stock Exchange values and in 'personal and professional' bank advances.

So much may be extremely useful. But if pressed beyond this point, monetary policy begins to effect a cure by cutting down fixed investment. This is objectionable for two reasons. First, it operates in a distinctly haphazard fashion, far removed from the smooth and well-oiled process presupposed in the textbooks. The restraint on investment is not due to the higher interest-cost of borrowing. Pre-war investigations suggested, and post-war experience has confirmed, that business decisions are rather insensitive to changes in interest rates, the effects of which on

<sup>1</sup> For the obvious reason that they are not solely, or even mainly, determined by savings or investment decisions, but by the demand for and supply of liquid funds.

the total cost of most investment schemes are negligible. Thus even though the long-term rate of interest rose more rapidly between 1947 and 1951 than in any comparable period for a century past, the effect on investment was virtually nil.<sup>1</sup>

The restraint operates not from the side of demand, but rather from that of supply. It follows from the contraction in the volume, not the rise in the price, of credit, due to the reduced willingness of the banks to lend as their liquidity ratios fall, and declining gilt-edged prices put a strain on their reserves. This does not represent the rationing of credit by price, nor bring the provision of credit under 'market' influences, in the way desired by orthodox City opinion. It amounts merely to an intensified rationing of credit by the administrative decisions of the banks themselves, with individual bank managers becoming the arbiters of who is and who is not allowed overdraft facilities. This is a haphazard and undesirable method of cutting investment, and would only be justified, even assuming that some investment had to be reduced, if the additional elbow-room created by a restrictive monetary policy were used for a selective and positive expansion of more essential investment.

The fact that monetary policy works not through the higher price, but through the administrative rationing, of credit, suggests that a Labour Government both can and should exercise credit restraint without incurring the attendant disadvantages, indeed the appalling waste, of a high Bank Rate: the additional strain on the Budget, on the finances of local authorities, and (perhaps most serious, though often forgotten) on the balance of payments, through the higher cost of interest payments on the sterling balances.<sup>2</sup> A fall in advances, for example, might be secured by funding operations alone, designed to reduce the banks' liquidity. Or, if this proved ineffective because the banks ignored the conventional 30% liquidity ratio, recourse could be had to the powers conferred by Clause 4 of the Bank of England Nationalisation Act, and a directive issued either enforcing some chosen liquidity ratio, or (as has been done in Sweden) imposing a ceiling on advances to particular categories of borrowers, or

<sup>1</sup> v. C. Kennedy, 'Monetary Policy and the Crisis', *Bull. Inst. Stat.*, April and May 1952. In Germany also the investment boom of the last few years has coincided with extremely high rates of interest.

<sup>2</sup> Though a rise in Bank Rate might still be necessary in certain circumstances to influence transactions in the foreign exchange market.

indeed using any of a number of possible methods designed to the same end.<sup>1</sup> In this way the advantage to the Exchequer of low interest rates could be combined with the advantage to the national economy of monetary restraint.<sup>2</sup>

Yet the role of monetary policy should always be limited; for apart from the haphazard nature of its impact on investment, the very fact that after a certain point it operates almost exclusively on investment is itself an argument against it. Of course there may be circumstances, as during a sudden and unexpected investment boom, when capital expenditure must be temporarily curtailed. But in general the preference should be for restraining consumption rather than investment; whereas the more heavily monetary policy is relied on relative to fiscal policy, the more the reverse is likely to occur.

A reliance on monetary policy alone is also unsatisfactory in other ways. The refusal to use direct controls makes it extremely hard to reduce imports while maintaining full employment. Investment is cut back in a wholly random manner, partly for the reasons just mentioned, and partly because social investment, being the most amenable to ministerial *fiat*, always suffers the most savage cuts. And, lastly, the distributive effects are often undesirable, since the policy of using the Budget not directly to restrain consumption, but (allegedly) to stimulate personal saving, requires tax concessions to be made primarily to the richer classes.

A Labour anti-inflationary policy should therefore rely, for all the difficulties mentioned above, more heavily on the fiscal weapon and, in the short run, on restraining increases in consumption. This is not, of course, a desirable long-run object of policy – indeed a sustained rise in consumption is the main reason for wanting a rapid rate of growth. And consumption will, in any event, rise substantially year by year. The case for occasionally restraining the *rate of increase* (for that is all it will be) rests simply on the belief that we may encounter periodic crises of inflation; and that if we do, the right policy is as far as possible to protect investment in order to maintain a more rapid rate of growth, and hence long-run expansion in consumption.

<sup>1</sup> For a discussion of some of these, *v.* H. G. Johnson, 'The New Monetary Policy and the Problem of Credit Control', *loc. cit.*, pp. 130 seq.

<sup>2</sup> The fact that public bodies would be protected from having to pay higher interest rates does not of course mean that their expenditure should never be restrained by other methods.



This does not mean that a Labour Government should altogether neglect monetary policy. On the contrary, it has a useful supplementary role to play, and should be employed rather more enthusiastically than it was after 1945. But to rely on it as the central stabilising weapon tends in practice to be inconsistent with the 'ideal' economic policy, which is to plan for a steady rate of increase in investment, and for a level of savings sufficient to match this rate. No doubt ideals are not always fully attainable; but they should at least determine the direction of policy.

## THE PROBLEM OF PRIVATE PROFIT

I *Profit as Surplus Value for Accumulation*

THE required level of total saving, whatever may happen in the field of personal or governmental savings, will certainly call for a high level of business savings, and hence for high profits in private as well as in public industry. These are a precondition of rapid growth, not only for their contribution to savings, but also as an inducement to industry to expand, and as a source of new capital. So long as we maintain a substantial private sector, therefore, socialists must logically applaud the accumulation of private profit.

This naturally raises an acute political problem. Not only are high profits unpopular (the more so when they occur under a Labour Government which is thought to have the duty of preventing them), but from the earliest days of the Labour Movement they have been anathematised; and for a Labour Government deliberately to encourage them seems a betrayal of everything that socialism stands for. The problem of profit is thus the central economic dilemma facing contemporary social-democracy; and attempts to resolve it will arouse profoundly traumatic emotions on the Left. The inner contradiction of capitalism, according to Marx, was its tendency to huge accumulations of profit. The inner contradiction of social-democracy may be its refusal, in changed conditions, to recognise the need for such accumulations.

The social objections to private profit – that it must lead to a ‘maldistribution’ of resources, or that it is immoral as an

incentive – have already been discussed in previous chapters.<sup>1</sup> We are here concerned with the economic role of profit in the sense of a surplus for accumulation.

Even this role has often been rejected, implicitly if not overtly, by socialists in the past. This was because the role of profit as a source of accumulation became inextricably confused with the Marxist view of profit as 'exploitation'. In Marxist theory, as is well known, labour is 'forced' to work for longer hours than would be needed merely to produce the goods required for its own remuneration at existing standards of living: that is, labour produces a total value greater than its current wage. This surplus value, which would have accrued to the workers themselves had they owned the means of production, in fact accrues to the capitalists, who have alienated the means of production. It is the appropriation of this surplus value in the form of profit which constitutes exploitation.

But in fact the emergence of surplus value, or profit, is in no way dependent on the conditions of capitalist production. It must occur in any society, whoever owns the means of production, in which one of two conditions are fulfilled.<sup>2</sup> The first is simply that the economy is dynamic, and not static. Economic growth depends on the setting-aside of some part of current output for the expansion or improvement of the instruments of production; that is, it requires the deduction of surplus value, and its use as capital for investment. The creation and appropriation of surplus value are thus an absolute pre-condition of economic growth. This is equally true of a communist as of a capitalist country; it is wholly irrespective of how and to whom the surplus value initially accrues. The only society which could forgo the deduction of surplus value as capital for investment, that is, which consumed its entire output of goods in current enjoyment, would be one which had resigned itself to a static population, a static standard of living, a static scientific knowledge, and no technical innovation.

In fact, even in a wholly static society, some surplus value would be required to finance the political, military, and administrative functions of the state. Those who perform these functions

<sup>1</sup> v. Chapter IV, Section III, and Chapter V, Section IV.

<sup>2</sup> For an excellent discussion of this subject, v. Daya, 'Surplus Value, Profit and Exploitation', *Review of Economic Studies*, No. 58, 1954-5. These pages owe a great deal to Mr. Daya's analysis.

create no 'value' in the Marxist sense; and their remuneration must be provided out of the surplus value created by the workers. Again this is equally true whatever the relations of production, for a communist as well as for a capitalist country. Thus Marxist 'exploitation' can be inferred from, and is a condition of, both the fact of economic development and the existence of a central state.

In the light of this manifest indispensability of surplus value, or profit, it hardly makes sense for socialists to object to it on principle. This of course was quickly grasped by the hard-headed rulers of the Soviet Union, who have probably extracted more surplus value from their subjects than any set of rulers since the pyramid-building Pharaohs. Marx never considered the possibility of exploitation in a socialist society, since he assumed on the one hand that the state would gradually 'wither away', and on the other that the transition to socialism would take place only *after* capital had already fulfilled its 'historic function' of developing the productive system to a saturation-point where further growth would be superfluous.<sup>1</sup>

These two conditions are naturally never likely to be fulfilled. And in Communist Russia, not only is an exceptionally large amount of surplus value required and employed for the upkeep of a vast military and bureaucratic machine, but the accumulation of profit for capital formation has been the central, obsessive aim of economic policy. The Soviet Government has enforced a rate of investment (i.e. extracted a degree of surplus value) which not only – or so Communist apologists maintain – exceeds that attained by any capitalist country even in the heyday of its growth, but also certainly required more ruthless exploitation, and more widespread suffering amongst a reluctant and backward peasantry, than ever occurred during the industrial revolutions of the West. But although one may resent the excessive priority given to it in Soviet Russia at the expense of more humane and liberal values, it remains true that capital creation must be a prime motive of economic activity in any developing economy;

<sup>1</sup> 'Marx was in the happy position of assuming that the dirty job of exploiting the peasantry and the proletariat would already have been done by the capitalists. [They] would already have created an industrial apparatus and technology that would have taken production to unknown heights when the socialists would take control and get all the glory by distributing equitably all the goods thus produced.' (loc. cit., p. 101.)

and this presupposes the creation of surplus value, i.e. the accumulation of profit.

Presumably every British socialist would now concede the need for such accumulation. But what bothers him, naturally enough, is the fear lest the surplus should be used (or the belief that it is already being used) not, or at least not solely, for capital investment, but to increase the consumption of the bourgeoisie. This possibility appears to arise from the private ownership of the means of production, which confers on the shareholders (or their representatives) the choice of how to dispose of surplus value, and the power to sequester it for their own consumption.

Now in fact this possibility does not depend on private ownership. It also exists in a state-owned economy, where the state bureaucracy responsible for appropriating and disposing of surplus value may equally well use it to allot themselves a privileged consumption-position. The possibility of the 'misuse' of surplus value arises inevitably from the alienation of the means of production from those who operate them. But under conditions of large-scale production, this alienation has little to do with ownership. The Soviet worker is no more able than the British worker to determine the disposal of his surplus value. Conversely, the Gosplan manager is as easily able as the British shareholder or director to appropriate surplus value not for re-investment, but to allocate himself a differential income. In practice, of course, he is far more easily able, since he has neither free Trade Unions nor political opposition to contend with. In any society in which the disposal of surplus value is determined from above (i.e. in all except small-scale peasant or syndicalist societies), the possibility of its sequestration for privileged consumption must exist. But the likelihood of this occurring depends far less on the pattern of ownership, than on the strength of democratic institutions.

The problem facing British socialists is therefore so to use our democratic institutions as to ensure that profit in the private sector is used primarily for re-investment, and not (either currently or ultimately) for distribution to private shareholders – is used, that is, mainly as a source of collective capital accumulation, and not as a form of personal income. Naturally shareholders are entitled to an income commensurate with the risks entailed in investment. But dividend incomes larger than this are justified neither by the performance of an active entrepreneurial function,

nor (to put it mildly) by considerations of the right distribution of total personal income.<sup>1</sup> The rest of the chapter discusses the practical methods of securing this divorce between profit as a surplus income accruing to the rich, and deserving by every socialist canon to be squeezed: and profit as a surplus for accumulation and expansion, deserving by every (sensible) socialist canon to be enlarged.

## II *Profits Taxation and Savings*

There are three possible approaches: through corporate taxation (i.e. to tax the profits themselves in such a way as to discourage high dividend disbursements), through personal taxation (i.e. to allow a free distribution of dividends, but to tax the dividends and, more important, the resultant capital gains, in the hands of the recipient), or through statutory dividend limitation. The post-war Labour Governments relied mainly on the first approach; not only was total corporate taxation kept high, but there was in addition a differential tax on distributed as opposed to undistributed profits.

This policy was notably effective. From 1938 to 1953 net<sup>2</sup> trading profits of companies before tax rose by almost 4 times. But after tax, preference and ordinary dividends rose by less than 20%, while the amounts put to reserve rose by 4½ times. This striking disparity between the movement of distributed and undistributed profits was clearly associated with the increase in taxation. Of net profits before tax, the proportion paid in taxation rose from 31% in 1938 to 53% in 1953; but this increase was wholly at the expense of net dividends, the share of which (both preference and ordinary) fell from 48% to 16%, while net additions to reserve increased from 22% to 30%.<sup>3</sup>

The result was significantly to reduce both the absolute, and still more the relative, level of real dividend incomes. Whereas

<sup>1</sup> v. Chapter XVII for a fuller discussion of both these points.

<sup>2</sup> i.e., allowing for depreciation at replacement cost, and excluding inventory profits and losses.

<sup>3</sup> For detailed figures, v. David Walker, 'Some Economic Aspects of the Taxation of Companies', *The Manchester School*, January 1954; F. W. Paish, 'Company Profits and their Distribution Since the War', *District Bank Review*, June 1955; and the Radcliffe Report.

between 1938 and 1953 the price level more than doubled, and average wage earnings approximately trebled, gross (pre-tax) ordinary dividends rose by only 50%. Even in 1954, after a rapid spurt in distributions under the Conservative Government, gross dividends had a purchasing power of only 75% of their 1938 value, and only 60% after deducting tax.

The consequence for share values of the fall in the ratio of dividends to profits was most marked, since the Stock Exchange tends to value shares not by their earnings yield, but by their dividend yield. Thus despite the rapid and sustained rise in total profits, the index of ordinary shares rose by less than the fall in the value of money; and it was not until 1954, after a period of more liberal distribution under the Conservatives, that it approached even double its pre-war level.

It is therefore evident that high corporate taxation can be most efficacious in effecting a divorce between gross profits and profit incomes, and in reducing the benefits which would otherwise accrue to shareholders from a rise in earnings. The post-1953 increase in dividends does not disprove this contention, since it has been associated with two reductions in the standard rate of income tax, a remission of Profits Tax, and the repeal of the Excess Profits Levy. Consequently the proportion of profit paid in taxation has fallen, and the proportion distributed has shown a corresponding rise; but the latter would not have occurred without the former.

Despite its success in preventing the undue enrichment of shareholders, the policy of heavy and differential corporate taxation has been criticised, not only of course by Right-wing and orthodox City opinion, which has consistently preached that it was ruinous, but even by some economists on the Left who, while rejecting the City case as exaggerated, nevertheless believe that business taxation does have some bad effects, and should be replaced in whole or in part by personal taxation. These criticisms call for examination.

Business taxation might have adverse effects on the total supply of savings, the incentive to invest, or the supply of finance for investment. These possibilities will be considered in turn.

In order to support the proposition that corporate taxation reduced total savings, one would need to show first that it was paid by companies at the expense of their undistributed and not

distributed profits, and secondly that the revenue was used to increase government expenditure, and not to augment a Budget surplus or reduce a deficit. If both these conditions were fulfilled, the tax would represent a transfer from private savings to public consumption; and if their converse was also true, a tax reduction would increase savings at the expense of consumption.

It is never possible to assert dogmatically that the second condition is or is not fulfilled, since one cannot attribute a particular segment of government expenditure or savings to the yield of a particular tax. But it has been the experience of all recent Administrations that government expenditure is extremely hard to reduce; and remissions of taxation are almost invariably accompanied by an equivalent fall, not in expenditure, but in government savings. Corporate tax reductions have not proved an exception to this rule.

If such a reduction were used by companies to increase the net amounts put to reserve, and not to pay more generous dividends, it would follow that the change would have no effect on total savings, but would represent only a transfer between public and private savings. But this is unlikely to be the case. It has already been shown that the higher taxation (as compared with before the war) was paid at the expense not of undistributed, but of distributed profits: and furthermore than the reduction in business taxation since the Conservatives assumed office has led directly to a higher ratio of distribution, and so inevitably to an increase in consumption and a relative fall in savings. It is not so much the dividends themselves that are significant – since they accrue mainly to wealthy people, they attract a very high marginal rate of tax – but the tax-free capital gains which follow the rise in dividends. The doubling of share prices, for instance, would add some £12,000 millions to shareholders' capital wealth; and if only a small fraction of this were spent the increase in inflationary pressure would be tremendous.<sup>1</sup>

It is therefore extremely probable that a reduction in corporate taxation would increase total consumption and decrease total savings (and in addition make wage restraint less likely); at any rate it is difficult to argue the contrary, that it would actually increase total savings.

<sup>1</sup> *v. Cmd. 9474, p. 387.*



III *Profits Taxation and Incentives*

The second criticism is that high profits taxation may weaken the incentive to invest, and so cause private investment to fall below the level permitted by the supply of savings and risk-capital. Clearly this danger did not materialise in the post-war era. From 1945 onwards the main limiting factor on investment was not any deficiency in the willingness to invest (or in the finance for investment), but rather a shortage of physical resources in the capital goods industries (building and engineering). Industry as a whole desired (and had the resources) to invest more heavily than it was able to do in fact; and its plans had to be cut back to the physical capacity available either by licensing and other government controls, or by long delivery-dates arising out of the full order-books of the firms producing investment goods.

Thus no reduction in taxation, even had it served its purpose of stimulating the incentive to invest, could have increased the scale of capital creation; it would merely have heightened the inflationary pressure, and exacerbated the strain on the engineering and building industries. Investment could have been increased only if other directly competing claims (exports, housing, defence, etc.) had been reduced, or, more generally, if the supply of savings, which was the ultimate limiting factor, had been increased.

However, it might be argued that the post-war period was exceptional, being dominated first by the backlog of demand from the war, and later by the inflation set loose by the Korean War: and that we are now entering on a more 'normal' phase, of which the events of 1952-3 were a foretaste, in which the main limiting factor is one not of physical resources, but rather of business incentives based on profit expectations of a short-term character. I argued in the previous chapter that this was in general unlikely to be true. But might not high corporate taxation and a bias against dividends alter the picture there painted, and dangerously weaken the inducement to invest?

It is not clear at first sight why it should. The differential element in the present profits tax exerts a bias in favour of retaining profits, and the greater availability of internal finance (as compared with a non-differential tax giving the same yield) itself creates an atmosphere favourable to expansion. And profits

taxation is, after all, proportional and not progressive; and it has always been conceded that a proportional tax has comparatively little effect on incentives. It is often said: why should a business take the risk of expansion when half the profits will go to the Exchequer? But this is a misleading question, since it ignores the fact that half of any losses are also borne by the Exchequer; the loss on one venture can be set off against the taxable profits on another, while overall losses can be carried forward and offset against future profits. It is thus not correct that profits taxation discriminates against risky investment.<sup>1</sup>

It is sometimes said that the bias against high dividends in some way affects the personal incentives of business leaders. It is not obvious why it should, since most of them own only an infinitesimal proportion, if any, of the stock of the businesses which they manage.<sup>2</sup> It therefore seems unlikely that they wish to maximise profits primarily in order to maximise dividends, or become less interested in expansion if dividends are held down. Such a supposition is contrary both to the reiterated (and no doubt genuine) statements of business leaders that they owe responsibilities not only to shareholders but also to workers and consumers, and that they endeavour to strike a balance between the three: and also to the strong conservatism of many large companies in respect of distribution policy, and the (overt or covert) conflict between management and shareholders' representatives which this often creates. Many managements to-day are at the least indifferent, and occasionally even actively hostile, to the claims of shareholders for larger distributions; and the dividend-restraint appeals of post-war Labour Chancellors were not wholly unpopular in board-rooms, since they provided an excuse for doing what many managements instinctively preferred to do – namely, give first priority to ploughing-back for further expansion.

<sup>1</sup> Except in so far as there is a serious risk of total bankruptcy, in which case naturally there is nothing to offset losses against. This risk scarcely exists in the case of the large public company, which these paragraphs are mainly discussing. Special attention is given to the problem of the small private company later.

<sup>2</sup> In the 'Median Large Company' (the average of industrial companies with £3 million capital or over) the Board as a whole held in 1937 only 14% of the issued capital (Florence, *The Logic of British and American Industry*, p. 209); there is no reason to suppose that the picture has altered since. Similarly in the United States only 6% of the common stock of the 200 largest corporations is owned by officers and directors, and over half of all officers and directors had holdings that could be described as negligible (J. K. Galbraith, in *A Survey of Contemporary Economics*, p. 108).

So much was evident from the complaints that filled those sections of the City Press which habitually adopt a shareholder standpoint. "This "schoolmarm" attitude towards the Ordinary shareholder is one which is far too common among boards of directors to-day. In their own minds they divorce the equity shareholders from the business and fail to regard themselves as merely the shareholders' agents. For many boards this approval of dividend limitation from official quarters merely strengthens their hand in acting with continued parsimony towards the Ordinary shareholders."<sup>1</sup> Even though the 'parsimony' has been somewhat relaxed since these words were written, it still remains true that most managements do not regard the shareholders as having the first claim on profits, nor an increase in dividends as being the prime aim of business activity.

From what motive, then, does the modern business leader seek to maximise profits? He may do so occasionally in order to maximise his own remuneration, if his salary contains a bonus element; but mainly he does so, as I have argued in a previous chapter, from a mixture of psychological and social motives. He tends to identify himself closely with his firm, which comes to have for him a genuine personality of its own, with interests quite separate from those of the shareholders. And not only his corporate loyalty to the firm, but all his personal motives — professional pride, desire for prestige in the business world, self-realisation, desire for power — find their fulfilment in high output and rapid growth, and hence in high profits, these being both the conventional source of business prestige and the ultimate source of business power.

Now from the point of view of these incentives, the absolute level of net profits is of less significance than the relative level. Business power and prestige are judged by, and depend on, the rate of growth of output and profits from one year to the next, or the relationships between the profits of one firm and those of its rivals. It follows that a flat-rate tax on profits, falling equally on one year with another and on one firm with another, since it has no effect on the relative magnitudes, will have little effect on the managerial incentive to maximise profits. It is therefore hard to see how either dividend restraint, or a high absolute level of

<sup>1</sup> *Investors' Chronicle*, 22 December 1951. This sort of rebuke could be multiplied indefinitely from the financial press.

company taxation, can do much harm to the personal incentives of business leaders.

But even though businessmen might personally like to invest more, it is sometimes said that high and differential taxation will prevent their doing so if the investment requires a new issue of capital. Such taxation, as we have seen, reduces the ratio of dividends to earnings; and since Stock Exchange values are generally related to dividends and not to earnings, it follows that earnings yields on equities will be unusually high. (They are currently 2-3 times their pre-war level.) These high earnings yields on existing shares, it is said, must make companies more reluctant to issue new shares in order to finance expansion; for if the new shares are to offer an earnings cover comparable to that available on existing shares, the projects for which the new capital is required must themselves offer the prospect of an exceptionally high rate of profit. Thus high earnings yields, by raising the degree of profitability to which new projects must conform, will reduce the number of such projects which are undertaken, at least if outside capital is required for their finance.

One can never dogmatise about suggestions of this sort, since we still know too little about the exact influences which play on investment decisions. But I am doubtful if this is in practice a quantitatively significant factor. For one thing, the same process which, by lowering dividend distributions, raises earnings yields on the Stock Exchange, also makes new issues less necessary by increasing the amount of retained profits available for expansion; and, as we shall see later, in almost every recent year companies as a whole have had more funds available for investment than they have chosen to invest. And so far as outside capital is concerned, there is surely little evidence that those public companies which have wished to expand more rapidly than they could out of their own resources have been deterred from coming to the market, or have slowed down their expansion for lack of new equity capital. Recent years have seen company after company coming to the market for more capital, and indeed finding their new issues quickly and greedily snapped up.<sup>1</sup> Certainly it is hard to believe that this deterrent operates significantly in the case of the large concerns whose expansion is often of most national

<sup>1</sup> In any case, almost as much outside capital is raised by fixed-interest borrowing as by new share-issues (*v.i.*).

importance; and if it does operate with small or new businesses, then special measures can be taken, which are discussed later, to alleviate their situation.

Generally, I feel that the social and economic pressures towards expansion described in the previous chapter are now much stronger than this sort of argument, with its hint of continual nice calculations of the exact marginal efficiency of capital, would suggest;<sup>1</sup> and unless some unforeseen change occurs in the economic (and political) climate, I should not expect the main limit on investment, even at present (or recent) levels of taxation, to come normally from the side of business incentives.

If, however, it should do, there is no need to react by crude and indiscriminate reductions in profits taxation; for governments now wield a powerful weapon for inducing more investment, and one which can, moreover, be employed with no undesirable results on dividend policy or share values.

This is the investment allowance, first introduced in the 1954 Budget, and now temporarily suspended. It has been accorded curiously little discussion.<sup>2</sup> Whereas income and profits taxes are a positive tax on company savings, the investment allowance is a negative tax or subsidy on investment.<sup>3</sup> Thus under a combination of the two a company pays less tax, the more of its profits it re-invests and the less it distributes or puts to reserve; and conversely. By varying the tax and/or the subsidy, governments can exert a strong direct pressure on the investment as well as the savings decisions of industry.

This may be seen by taking, as a *reductio ad absurdum*, the extreme case of 100% rates. A 100% investment allowance would mean that companies paid no tax on that part of their profits which they re-invested, and that a company which re-invested all

<sup>1</sup> Even on the assumption that such calculations can ever be made, except in the crudest terms, in the light of the fact that new issues are normally required not to finance a single project, the expected rate of profit on which might be calculated with some degree of precision, but a continuous process of expansion, often in a variety of different lines of production.

<sup>2</sup> Though I ventured to call it, in a speech on the 1954 Finance Bill at 3 o'clock in the morning, 'a completely new fiscal device of great moment . . . one not seen before, but which will be criticised or supported for many years ahead'. (*H.C. Deb.*, Vol. 528, col. 2176.) It has now been discussed in some detail in Mr. Kaldor's recent book (*An Expenditure Tax*).

<sup>3</sup> So in most cases was its predecessor, the initial allowance, contrary to the conventional view (supported even by the first Millard Tucker Committee) that it was only an interest-free loan. (v. my article 'The Initial Allowances Reconsidered', *The Banker*, September 1953.)

its profits had a zero tax liability.<sup>1</sup> A 100% profits tax would mean that all profits not re-invested would go to the Exchequer, and that a company which invested nothing would pay its entire profit away in tax. This combination would give rather a strong inducement to managements to invest, since the only alternative would be to let the Inland Revenue have the lot. (The inducement would be even stronger, given the political bias of most managements, if a Labour Government were in office. The disinclination to surrender everything to what Gibbon once called 'the insolent vexation of the farmers of the revenue' would then be overwhelming; and there would be a positive rush to cheat the farmers by raising capital expenditure.)

This limiting case illustrates the fact that different combinations of negative and positive tax will give different scales of preference between investment and non-investment. Furthermore, different combinations of investment allowance, distributed profits tax, and undistributed profits tax will give different scales of preference between investment, dividend distributions, and the accumulation of reserves. Thus it is possible, in principle, to find a combination which will give any desired degree of investment, total yield from profits taxation, and level of dividend payments; and a Labour Government could encourage investment by raising the investment allowance, yet prevent either a fall in the total yield of profits taxation, or an increase in dividends, by simultaneously raising the rates of profits tax. (This is clearly preferable to a straight reduction in profits taxation; not only would this lead to a loss of revenue, but there would be no guarantee that the sums remitted would be used for higher investment, and not for higher dividend payments.) We therefore have in the investment allowance a reserve weapon of no little precision and power, should industry prove to have too little incentive to capital formation.

#### IV *Profits Taxation and the Supply of Risk-capital*

The discussion has already touched indirectly on the third alleged danger of heavy business taxation, that it may adversely

<sup>1</sup> And despite the fact that the entire cost of the investment could be written off for tax in the first year, the company would still receive the normal depreciation allowance over the life of the investment. A 100% investment allowance would thus mean that it could ultimately set 200% of the cost of the investment against its tax liability.

affect the supply of risk-capital, so that companies cannot invest as much as they would like for lack of the necessary finance.

This has not occurred so far, despite all the talk in the City and industry to the contrary. The National Income Blue Books show that in almost every year aggregate profits are more than sufficient to provide for tax liabilities, dividend and interest payments, and investment in fixed and working capital, and still leave a substantial surplus for repaying bank indebtedness, buying securities, or lending in other ways. Even after tax, undistributed profits and depreciation allowances have risen by more since before the war than gross investment in stocks and fixed capital, so that whereas in 1938 company savings and investment roughly balanced, in the last few years companies have been net savers and lenders to other sectors of the economy to an extent varying from £200 millions to nearly £600 millions annually.<sup>1</sup>

Such figures are, of course, in money terms, and take no account of the higher cost of replacing fixed assets and financing stocks. But even if depreciation is calculated at replacement cost and stock appreciation excluded from company savings, companies have still had, in almost every year, an excess of available resources over total net capital formation at home varying between £200 and £500 millions a year. In real as well as in money terms, the net savings of companies have increased since before the war by more than their investment; and the higher taxation has been at the expense, not of company savings, but of shareholders' incomes.<sup>2</sup>

There has thus been no question of a *general* shortage of finance acting as a brake on investment, and still less of an 'erosion of capital' in industry due to high taxation. Such a notion is inconsistent not only with the above figures, but also with the huge increase in industrial output since 1938, and now with the figures recently made available showing a substantial increase in fixed capital in industry since before the war.<sup>3</sup>

But of course the situation might change in the future, as

<sup>1</sup> *r. National Income and Expenditure*, 1955, Table 45. These figures are still heavily positive even when allowance is made for investment abroad.

<sup>2</sup> *r. Walker*, loc. cit., *Paish*, loc. cit., and *Philip Redfern*, 'Net Investment in Fixed Assets in the U.K., 1938-53' (paper delivered to the Royal Statistical Society).

<sup>3</sup> *r. Redfern*, loc. cit. The net value of all fixed capital assets rose (at constant prices) by 10% between 1938 and 1953; the increase in manufacturing industry was as much as 25%.

companies seek, and physical resources permit, a higher level of investment, with a correspondingly greater strain on industry's financial resources. The fear most commonly expressed is that the low distribution ratio which high taxation enforces may make it too difficult for companies to raise outside finance, since these 'artificially' low dividends will not suffice to attract the necessary volume of risk-capital from shareholders. How important, then, is the shareholder as a source of new capital?

It must be noticed, first, that British industry has historically been largely self-financing, except for new businesses. Even a generation ago, when personal savings were relatively much higher than now, they were channelled mainly into foreign investment, housebuilding, railways, and the utilities, leaving industry to rely largely on its own ploughed-back profits.<sup>1</sup>

This tendency is still evident to-day – indeed, as was pointed out above, the same discriminatory tax on distribution which reduces the reward to shareholders also increases the amount of undistributed profits, and so makes recourse to outside finance less necessary. To a significant extent public companies to-day are, as they have always been, self-financing, and can carry through their investment programmes without recourse to the market and without the need, therefore, to offer inducements to investors in the shape of very much higher dividends. Some two-thirds of new capital expenditure by private industry financed out of undistributed profits; and the proportion is certainly higher for public companies. To this extent, the relation between dividend payments and industrial expansion is less close than is sometimes imagined.

Even to the extent that public companies do have recourse to the market for new funds, they need not always offer very generous dividend prospects. It is an illusion to suppose that 'risk-capital' consists solely of equity capital. Much industrial borrowing takes the form not of share issues, but of debentures and fixed-interest-bearing loans of various kinds.<sup>2</sup> The popularity of such issues in recent years proves at once that investment in large

<sup>1</sup> v. F. W. Paish, 'Sources of Finance for British Industry' (*Financial Times*, 'Annual Survey of the British Economy in 1952').

<sup>2</sup> The proportion of new borrowing which took this form was 36% from 1933 to 1938, and has averaged nearly 40% since 1949 (though the figures show large year-to-year fluctuations due to changes in profits tax or rates of interest, and to the inclusion in particular years of large issues by a few giant firms).



British companies is not considered particularly risky, and that a large volume of funds is available to take up stock which offers no possibility of a rising income. Moreover much of the supply even of equity capital is in search only of a steady yield slightly above that obtainable on gilt-edged, combined with a high degree of security. This applies – not, it is true, to wealthy private investors – but to a significant extent to institutional investors, and also to many small investors who have neither the time nor the inclination to be constantly on the phone to a stockbroker in a daily search for capital gains.<sup>1</sup>

Thus since a high proportion of new capital is found from internal sources, and since of the remainder a further proportion comes from fixed interest-bearing bonds,<sup>2</sup> and since of the residue obtained from new share issues a further proportion is subscribed by investors in search of security rather than large capital gains, it seems unlikely that the lower level of distributions (which after all still offers the prospect of some annual increase and capital appreciation) will have much influence on the overall supply of new capital.

This conclusion is supported by the experience of other countries whose rate of investment is higher than our own, yet where a conservative and even ungenerous attitude is adopted towards the claims of shareholders. Norway, which can boast the highest post-war ratio of fixed investment to gross national product of any country in Europe, has actually maintained a statutory limitation of dividends. Sweden, investing nearly 20% of its gross national product and enjoying a particularly rapid rate of productivity-increase, has had only a moderate rise in dividends and share values since the end of the war; new share-issues play a minor role in the supply of new capital, which comes mainly from company reserves, bank credits, and bond issues; no one

<sup>1</sup> In fact the institutions largely dominate the new issue market, since it is only here that they can buy in large quantities without (so huge are the funds which they wield) forcing prices up against themselves. And since they cannot (at least the life assurance and pension funds), in view of their fixed future obligations, stay out of the market for long, they constitute a supply of new capital which is comparatively inelastic to changes in dividends or the prospect of capital gains.

<sup>2</sup> The same is also true in the U.S.A. An analysis of corporate financing in 1953 by the Department of Commerce showed that industry financed its requirements to the extent of \$22 billion through retained earnings and depreciation, compared with only \$7.6 billion through new borrowing; and of the latter figure \$5.2 billion took the form of loan stock, and only \$2.4 billion of new share issues (preference as well as ordinary).

worries too much about the relation between share values and asset values; and the social and political climate is such that it would scarcely occur to industry to behave in any other way.

But the most striking example is that of Germany. Here is the country eulogised by the champions of private enterprise not merely for its unmatched investment record, but also for its alleged attachment to the classical virtues of *laissez-faire* and high rewards for risk. Yet the whole spectacular post-1948 German expansion of output and investment was accomplished with only the bare shadow of a free capital market, and indeed with the whole financing of industry largely a matter of State *dirigisme*. What market existed was dominated by municipal and state borrowing, and to a much lesser extent by industrial fixed-interest-bearing issues. Industrial share issues played a negligible part, and in 1953, for example, a year of very heavy private investment, accounted for only 9% of new issues in the market – and even this small fraction represented mainly the results of company reconstructions, and not the issue of fresh capital.

Thus almost the entire German expansion of fixed investment, which has so rightly alarmed opinion in this country, was carried through by a process of self-financing, bank credits, and government funds. Approaches to the market for new capital were on a negligible scale; and the role of the shareholder, and of dividends, was insignificant.<sup>1</sup> Nor can this be put down solely to exceptional post-war factors, since it is well known that German industry has never relied at all heavily on new public issues of ordinary shares, or been at all generous in its distribution policy. The German experience should at least give people pause before they assume that new issues of equity shares must always be the predominant source of new capital, or that any limitation of dividends must inevitably slow down the rate of growth.

In any case, the argument for more generous dividend payments in Britain would be a good deal more convincing if dividend increases showed any correlation in practice with changes in the demand for outside equity-capital. But they do not. In 1953, for example, private manufacturing investment showed no increase, although companies commanded ample liquid resources and all

<sup>1</sup> The most striking example of self-financed growth was provided by Volkswagen, whose entire expansion of output (at very competitive prices) from 1948 was financed out of retained profits – and indeed without making any dividend payments to anyone, since the firm had no shareholders.

new issues on the Stock Exchange (which in fact were unusually few in number) were heavily over-subscribed. Yet it was also a year of large dividend increases. Nor could the further rise in dividends in 1954 and 1955, though these were admittedly years of rising investment, be adequately related to a greater need for outside finance. This suggests that decisions about dividend policy bear much less relation than is often supposed to future capital requirements, and much more to all manner of other (often semi-political) factors. Indeed no one who follows the City Press regularly, and the comments on companies' dividend decisions, could ever imagine anything else.

### v *The New or Small Business*

Nevertheless, even though industry as a whole has sufficient monetary resources at its command, this need not be true of every type of firm; and it is often suggested that high taxation bears with especial severity on the new or the small company trying to expand. Such enterprises have already been hit by the altered pattern of personal savings – the transition from the wealthy investor, willing to chance his arm on a 'long shot', to the small and medium saver looking for safe and often institutional outlets for his money. Nor do they gain from the rise in the corporate savings of large established firms, for these, if they are surplus to requirements, are invested in gilt-edged stock or used to repay debt; they are not lent to other and more risky enterprises.

On top of this, such businesses are the worst hit by high taxation. The greater the total weight of tax (ignoring for the moment the differential element), the less expansion can be financed from ploughed-back profits, and the greater the need for outside finance. But in procuring outside finance the large firm has a distinct advantage over the small. Offering, as it does, better security, it can more easily obtain bank accommodation; it can procure long-term capital without much difficulty from its own shareholders by means of rights issues; and if it must go to the market, it can do so at a substantially lower cost. The small company, by contrast, finds recourse to borrowing both harder and more expensive, and must therefore rely more heavily on its retained profits. By reducing these, profits taxation puts it at a pronounced

relative disadvantage; and this will be greater, the more rapidly it wishes to expand.

Investment will then tend to be concentrated, it is said, in the large established firms with ample liquid resources and a high credit standing. This will both encourage monopoly, and discourage precisely those rapidly-expanding businesses whose growth is most vital to economic progress. Even if companies as a whole have sufficient financial resources, therefore, there will be a less efficient allocation of new savings.

The facts may be as stated; but I suspect that the harmful consequences are sometimes exaggerated. As to the cause of the situation, it cannot be simply post-war taxation, since the same facts were in evidence before the war. It has long been the case that many small and medium firms, wishing to expand faster than their retained profits would allow, have been unwilling, or unable save at extravagant cost, to go to the new issue market. This was the notorious 'Macmillan gap' in the facilities for new borrowing.

But whatever the cause, how serious are the consequences? First, to encourage large firms to grow still larger is not necessarily the same thing as encouraging monopoly. A growth in scale will lead to monopoly only if the size of the market remains unchanged. But the market for most products expands *pari passu* with the general rise in output and incomes; and moreover new markets are constantly being developed as new products are discovered; and new tastes created. So far, these two influences – the growth in scale and the growth in the size of the market – appear roughly to cancel out. In the U.S.A., where alone detailed figures are so far available, no marked increase has occurred in the degree of concentration, certainly not in the economy as a whole, and not even in all individual industries; the share of all industrial assets accounted for by the largest 100 corporations has remained constant at about 25% since 1909.<sup>1</sup>

It is conceivable, it is true, that a system of taxation which bore too heavily on the small, expanding firm might alter matters,

<sup>1</sup> There is, in addition, a considerable turnover at the top, ranging from 10% to 20% annually amongst the 500 largest corporations – i.e., between 50 and 100 newcomers each year rise and displace existing firms from the list. Only preliminary figures are available for Britain; they suggest that the degree of concentration increased until 1939, fell between 1939 and 1950 (despite the high taxation), and has slightly increased since 1950.

and increase the monopoly power of the existing giants in each industry. Yet even this is far from certain. The competitive challenge to such giants does not come predominantly from new or small firms. It often comes from other large firms in the same industry, now that the picture is so frequently one of oligopoly – a small number of (still competing) large concerns; and oligopolistic competition, although it seldom takes the form of price-wars, can be exceedingly fierce, as is shown by the history of the U.S. motor industry.<sup>1</sup> Or it comes from imports, or from anti-trust action by the government, or (still more commonly) from the development of close substitutes or entirely new products. Or, lastly, it comes from established firms in other industries seeking diversification either in order to spread their risks, or simply to find a profitable use for spare resources – and this type of competition is positively aided by large retained profits and low dividend distributions, since firms are constrained by the availability of finance surplus to their own requirements to seek outlets for investment in other industries. We must therefore distinguish between encouraging size, and encouraging monopoly.<sup>2</sup>

And encouraging size is not (at least up to a certain point) always bad for economic progress. Especially in those technically-advanced industries on which our industrial future primarily depends, such progress often demands both a scale of capital investment, and an expenditure on technical and scientific research, which are beyond the resources, human as well as financial, of any except large concerns. This does not mean that new or small firms can never be progressive or efficient – only that a system of taxation which favours large established companies is not necessarily bad for economic progress.

Of course there will be cases, as under any policy, where such a system has bad results – cases where excessive retained profits are accumulated, and invested not in new physical assets, but simply in gilt-edged stock designed to provide a comfortable feather-bed for the senior directors' declining years. It is the City theory that it would be better in such cases, and easier under a different system of taxation, if these profits were paid out in

<sup>1</sup> And will soon be shown, if present expansion plans are carried out, by the British motor industry.

<sup>2</sup> In any event the damaging monopolies in Britain are not such few large, single-firm monopolies as we possess, but the trade association cartels based on some form of market-sharing agreement.

higher dividends, which would then find their way back, via a 'healthy' investment market, to more efficient and expanding firms in need of capital. But this is unrealistic. It is much more likely, given the low savings propensities of most shareholders, that the dividends would be absorbed into higher consumption, and so diminish, instead of re-allocating, total savings. If this is to occur, it would be preferable that the higher consumption should accrue not to shareholders, but to consumers in the form of lower prices; or let the 'wasted' savings be transferred to the State, and thence re-allocated, by even higher profits taxation!

But of course this motive for accumulation is much less common than the desire to undertake expansion without the need for outside finance; and it is likely to be still less common in the present expansionist atmosphere than it was in the cautious, pessimistic atmosphere of the inter-war years. One cannot alter the entire system of taxation to deal with a few exceptional cases.

But to revert to the new or small concerns, the argument about their diminished role under present-day conditions is, like the argument to the contrary, only a personal judgment, which may be wrong. Even if it is right, they clearly have some role to play, and should be strongly encouraged to play it; and moreover the greater the relative *economic* importance of the large public company, the more attention should be paid to the small firms on wider *social* grounds. And they may indeed find difficulties in respect of new finance. But this is not an argument for reducing taxation or encouraging high dividends in the whole of industry. There is no point in making gratuitous gifts to the shareholders of every industrial giant in order to help the small concerns; and their hardships should not be allowed to determine our entire policy for the private sector. We should therefore maintain a tight hand on the distribution policies of public companies, but take special measures to aid the small firms most affected – if necessary, and if the previous argument is found to understate their role, to the extent of flooding the small-firm sector with offers of capital; though some of these measures would also aid large firms in the event that this should prove necessary.

The most obvious way of helping small firms only would be to make corporate taxation more progressive at the lower end of the scale. A minor element of progression already exists – Profits

Tax is not charged on the first £2,000 of profit, and is charged at a lower rate up to £12,000; and this could be increased either in respect of the Profits Tax, or by granting a larger investment allowance on the first £2,000 of capital expenditure.

Secondly, the existing financial institutions might be encouraged or compelled to invest a higher proportion of their funds in industry. Some eminently respectable City opinion now accepts the view that the insurance companies and pension funds, having in effect succeeded to the role of the wealthy private investor, should logically, from a national standpoint, be more venture-some in their investment policy. At present the insurance companies, the largest of the institutional investors, invest some 12%-15% of their funds in ordinary shares. When they are urged to raise this proportion, they reply that their first duty is to their policy-holders, who want security and are not insuring in order to aid British industry in its financial difficulties; their purpose, they say, is prudential, not eleemosynary. This is a natural answer; but many experts believe that with so large a field over which to average, these companies could participate more fully in industry without in any way jeopardising the rights of policy-holders.<sup>1</sup> In any event, it is illogical that in a planned economy, in which the supply of finance plays so central a role, these huge blocks of funds should be managed with no public supervision or compulsion to harmonise with Government policy. The case for nationalising industrial assurance, already strong on social-welfare grounds, is surely irresistible when considerations of control of the capital market are also added.

Thirdly, the Government itself might step in either to provide new capital to firms needing it, or to reduce their need for it, or to bear part of the risk of new projects. Governments already use a variety of means to attain these ends: the guaranteed sales contract for part or all of the output of a scarce product (as was done with titanium and hydraulic presses for airframes), the development contract (widely used in the aircraft industry), the construction and lease of factories (as in the Development Areas); or, finally, the State can bear the entire risk itself, and build and

<sup>1</sup> The historical reason for investing only a modest proportion of insurance assets in ordinary shares was the belief that these were subject to sharper market fluctuations than other forms of investment. But this is much less true under full employment than it was in the inter-war period.

own the plant as a public concern. All these methods are capable of further development.

Acting less directly, the Government has also combined with the financial institutions to set up the Industrial and Commercial Finance Corporation to provide long-term capital to sound small and medium enterprises which find difficulty in obtaining it through the normal channels. But admirable as its work has been, the Corporation's scale of operations has been too limited, and (perhaps naturally in its early days, and considering that its funds come mainly from private institutions) its outlook too cautious, to make more than a marginal difference to the situation.

It has therefore been suggested<sup>1</sup> that the Government might set up a national investment corporation, equipped with funds from the Budget surplus (and perhaps acting in conjunction with the Death-duty Commissioners proposed in an earlier chapter), to participate in the equity of private firms without, however, interfering in their management. The condition is important. Many firms faced with a shortage of new capital are yet reluctant to surrender part of their equity even to an insurance company, and *a fortiori* to the Government, because they fear outside control and interference with their management. Rather than succumb to this, they may prefer to slow down their rate of growth to what their ploughed-back profits will permit. It is therefore important that any such government body should eschew attempts at control, and behave as passively as an ordinary shareholder. If not, the corporation will be manned, and funds provided, but its waiting-room may be empty of applicants.

And indeed it would be a wholly unsuitable body to exercise control. Socialists must remember (in this and other contexts) that the control of industry, and the supply of capital to, or the ownership of shares in, industry, are two distinct functions, calling for quite different types both of personnel and administrative machinery.

Lastly there is the possibility of a reform in banking policy. We sometimes forget that Britain is exceptional amongst industrial countries in the refusal of its banks to extend long-term credits to industry (either directly or through the purchase of securities). In many other countries, the banks play a much larger

<sup>1</sup> v. E. C. E., *Economic Survey of Europe in 1955*, p. 113.



and more positive role in the supply of new capital; and it might well be argued that the unusual British separation of banking and industry, while perfectly logical in the days of the wealthy private investor, had lost its justification to-day. It is surely curious that the banks have made virtually no adjustment in their policy towards industry, despite all the social and economic changes of the last two decades; and even in the City influential voices are occasionally to be heard advocating such an adjustment.<sup>1</sup> Certainly there is no reason, in the light of experience elsewhere, why we should treat existing banking policies as sacrosanct, or utterly reject a move towards industrial banking, if the supply of new capital should turn out to be seriously inadequate.

In the light of all these possibilities, it is not clear why high corporate taxation need create a desperate shortage of new capital, even for smaller businesses, nor why an advanced and mature economy like our own should confess itself unable to find new sources of money-capital to finance investment for which the need, and the demand, are equally strong. Given a willingness to experiment, I can see no reason why difficulties on the side of finance, due to high taxation, must either hold back investment as a whole, or cause it to be seriously 'maldistributed'.

## VI *The Choice Facing Socialists*

I conclude that the alleged ill-effects of high business taxation have been exaggerated in the past, and that ample counter-measures are open if they should materialise in the future.<sup>2</sup> We can thus choose dispassionately, without being stampeded by terrible forewarnings, between this and other methods of preventing shareholders from gaining disproportionately from the high profits inevitably associated with rapid growth.

<sup>1</sup> cf. the 1955 Presidential address to the Institute of Bankers by Sir George Erskine.

<sup>2</sup> Though there is certainly a case for *simplifying* our present system of business taxation. There is little to be said for making companies liable for two separate taxes — income tax at the standard rate and profits tax. It would be better to separate personal and corporate taxation altogether, and impose a single Profits Tax on companies (though it could still be at different rates according to whether profits were distributed or not). The rates could then be varied up or down without affecting personal taxation, and vice versa. (v. the Minority Report of the Radcliffe Commission, pp. 382 seq.)

There are two other possible methods. The first would be to transfer all or part of the taxation of the shareholder from corporate to personal taxation; the second would be the statutory limitation of dividends.

The latter, for the reasons set out in Chapter XVII, would be the most complicated of all possible methods, and should be treated as a possibility of last resort. But there is much to be said for a partial transfer as between corporate and personal taxation, by combining a capital gains tax with perhaps some reduction in profits taxation.<sup>1</sup> The former is not necessarily much more (or less) efficient from an economic point of view. But it is certainly more equitable and efficient from a distributive point of view, since it both falls on gains as they are actually realised by the individual (in contrast to corporate taxation, which is very haphazard as between individual gains), and taxes gains on other forms of property besides securities. But it can only be a partial substitute. There are powerful incentive reasons why it must be a flat-rate and not a progressive tax; and business taxation could therefore not be wholly revoked without an excessive gain to the rich.

Whatever combination of methods is finally chosen, there is no evidence yet to suggest that we cannot run a mixed economy at a high level of employment and a healthy rate of growth, but without a progressive enrichment of the shareholder at the expense of the rest of the community. The social, economic, and technological pressures towards expansion appear, in our type of society, to be so strong, and the supply of national savings so likely to be the ultimate limiting factor, that a policy of combining high profits with low profit-incomes need not hold back the rate of growth by endangering either the demand for, or the supply of, new capital.

Some Left-wing economists, it is true, might not accept this conclusion; and the whole attempt is of course in the nature of an experiment. But the more one considers the experience of other countries, the more one becomes convinced that there is no unique source of supply of new industrial capital, no unique position that the shareholder needs to occupy, and no unique level of property-incomes necessary for the growth of capital. All these can be, and are, conditioned by social, cultural, and historical

<sup>1</sup> *v.* Chapter XV, Section IV, for a discussion of the capital gains tax.

factors. It is the task of the Labour Party, if we accept, as I personally do, that the mixed economy both has great practical advantages and is in tune with the inclination of the British people, so to condition these attitudes that the experiment succeeds.

## THE DETERMINATION OF WAGES

I *Wages and Labour Mobility*

MANY socialists would like the Government to have a detailed policy for wages, as part of a planned policy for personal incomes as a whole; and many commentators of all political persuasions are dissatisfied with the *laissez-faire*, sectional character of wage-bargaining as it now exists.

Wage determination must always be an issue of exceptional intricacy, since a wage fulfils so many functions. It has the direct function, as measured against the price-level, of deciding the wage-earner's real income; hence it is mixed up with social and ethical questions of the right distribution of total income. It has an economic function as a necessary supply price of various kinds of work-supply: of labour into a particular firm or industry, of certain skills or types of labour, and of willing physical effort. And lastly it is an important cost of production, and hence an influence on the price-level, the balance of payments, the competitive efficiency of industry, and so on. These various aspects, partly economic and partly a matter of social value judgments, will never point to a unique 'optimum' level or distribution of money wages; and wage determination must always be a rather confused, uneasy process of balancing opposing considerations.

The two aspects which have attracted most discussion in the post-war period, and on which attention is concentrated in this chapter, are first the influence of wage policy on the distribution of labour, and secondly the danger of a wage-price spiral.

It is often argued that the 'competitive sectional' character of collective bargaining must lead to a very rigid wages structure.

Each Union in turn, acting independently, and without regard either to the national interest or to the effects on other workers of its own decisions, puts in a separate wage-claim; other Unions, anxious to maintain the traditional relationships, then do likewise, and the result is an all-round increase which leaves the relativities exactly as they were before. With unemployment this may not matter, since the movement of labour is then a function less of relative wages than of relative employment-opportunities. But under full employment, with every industry offering jobs, labour mobility requires that relative wages should alter; and this will not occur.

Now it is doubtful if labour mobility is, in practice, primarily a matter of wage differentials. But in any event relative wages do respond to the pressure of supply and demand even under full employment; and the last few years have witnessed considerable changes in the British wages structure. Indeed, 'the main contrast is between a relatively stable inter-relationship of wage-rates in the unemployment period and a considerable shift in this relationship in the full employment period'.<sup>1</sup> To take a few examples, the percentage increase in weekly earnings for all industries between 1938 and 1948 was 114; but for coal it was 206, and in agriculture the minimum wage nearly trebled. From 1947 to 1955 miners increased their average earnings by nearly £6 a week, shipbuilders and dockers by £4 10s., railwaymen by £4, cotton workers by £3 10s., and farm workers only by £2 10s.

Moreover, the earlier movements occurred at a time of general excess demand. If an 'undermanned' industry gained a wage advance, there was nothing in the market situation to prevent or discourage other industries from granting comparable increases in order to protect their labour force; the higher wages could be passed on to the consumer with little risk of a loss of sales. But in a non-inflationary state of full employment, when total demand for commodities is in rough balance with total supply, such an escape would be less easy. Large wage increases could be passed on only at the risk of falling sales, and employers in industries not suffering from an acute shortage of labour would be much less docile about following wage concessions made elsewhere. Thus relative wage movements are more likely if

<sup>1</sup> Allan Flanders, 'Wages Policy and Full Employment in Britain', *Bull. Inst. Stat.*, July and August 1950.

general excess demand is absent; and the changes that occurred in the inflationary decade 1938-48 are the more remarkable.

Furthermore, in the absence of excess demand, variations in employment-opportunities will be superimposed on variations in wage movements even in a fully-employed economy. This influence was masked during the inflationary years, when virtually every industry was short of labour. But once the seller's market gave way to a buyer's market abroad, and the inflationary pressure abated at home, changes in final demand again assumed a more normal importance. Businesses were now liable to find their sales limited not by their physical capacity to produce, but by the size of the market and the efforts of their competitors; and they might be faced, especially if producing for export, with sudden changes in demand which often compelled a reduction in their labour force. The textile industry has found this to its cost in the last few years; and the result has been a considerable redistribution of labour in the textile areas. In a competitive, non-inflationary economy, especially an export-oriented one like our own, changes in the relative intensity of demand for labour will induce a considerable degree of mobility even under full employment.

The extent of this mobility, in an economy in which the unemployment rate virtually never rose above 2% of the insured population, is much greater than people commonly suppose. From 1950 to 1953, the labour force in the engineering, shipbuilding, vehicles and metal goods industries rose by some 200,000 (about 6%). This was made possible partly by a growth in the total labour force, but also by net declines in the labour force of other industries. Textiles and clothing contracted by 35,000, transport and communications by 38,000, agriculture by 48,000 and public administration by 27,000. There is little sign here that either a 'dose of unemployment' or a national wages policy is needed to induce mobility. In the words of a journal very critical of post-war economic policy, 'one at least of the consequences that many people have always feared from brimful employment – that there would be insufficient labour mobility – does not seem to have materialised in practice'.<sup>1</sup>

<sup>1</sup> *The Economist*, 1 October 1955, p. 59. As the same journal remarked on another occasion, 'labour mobility, as is well known, is always too low; . . . but most of the right jobs in the British economy somehow manage to get filled' (6 March 1954, p. 717). But these sensible remarks in the 'Business Notes' did not prevent continual references on the leader-pages to the 'rigid', 'frozen', or 'immobile' British economy.

The belief to the contrary in the immediate post-war years was largely a reaction to the structural problem then presented by the so-called 'undermanned industries'.<sup>1</sup> This appeared so formidable as to create an atmosphere bordering on despair, especially as it was falsely conceived to be typical of what was to be expected under conditions of full employment.

But now that the economy has shaken down to a more normal condition, we can assert with reasonable confidence that in the absence of inflation we do not need a central wages policy in order to secure an 'efficient' degree of labour mobility. This does not mean that no individual problems (e.g. coal) exist, nor that all wage differentials and relativities are completely rational, or justified on either social or economic grounds.<sup>2</sup> It only means that relative wage movements do occur: that they occur broadly in the right direction; and that from this and (mainly) other causes a movement of labour also occurs on a generally satisfactory scale. And if the problem of securing mobility should prove worse in the future – if, for example, automation should create particularly 'sticky' and localised pockets of redundancy – the answer is much less likely to be found in a national wages policy than in a more vigorous government policy for vocational re-training, subsidies towards the cost of moving, and control over the location of new industry.

## II *Wages and Price Inflation*

The second, and more persistent, fear was that sectional wage-bargaining would inevitably lead to a continuous wage-price spiral as the Unions exploited a bargaining position enormously strengthened by the seller's market for labour. The resultant wage-inflation must have such disastrous effects – on exports, on the position of fixed-income receivers, and on the prospects for social stability generally – that full employment and free wage-bargaining would in the end prove incompatible. It was, in any

<sup>1</sup> For an account of this problem, *c.* my two articles in *Bull. Inst. Stat.*, May and July 1949.

<sup>2</sup> They would be more rational than they are now, even without a deliberate wages policy, if government-administered prices were sometimes more rational; this was especially true of coal prices, and therefore miners' wages, for much of the post-war period.

case, illogical as well as impracticable to plan all other sectors of the economy, but leave wages uncontrolled.

This view was at one time common to many economists and most Left-wing intellectuals. Sir William Beveridge (as he then was) wrote that 'there is no inherent mechanism in our present system, which can with certainty prevent competitive sectional bargaining for wages from setting up a vicious spiral of rising prices under full employment'.<sup>1</sup> From the Left, the authors of *Keeping Left* wrote that 'a democratic socialist economy cannot operate successfully if wage-fixing is left either to the arbitrary decision of a wage-freeze or to the accidents of unco-ordinated sectional bargaining';<sup>2</sup> while Mr. Crossman in his Fabian Essay, after writing that 'profits, wages, and salaries are still determined not by any conditions of national interest or social justice, but by the traditional methods of *laissez-faire*; under conditions of full employment, this must result in a continuous inflationary pressure', went so far as to define this as one of the three spheres in which 'welfare capitalism' fell short of socialism.<sup>3</sup> The conclusion was always the necessity for a 'national wages policy'.

Much of the argument along these lines was somewhat crude. It was sometimes even forgotten that rising productivity gives a considerable margin for wage increases without the need for equivalent price increases. More commonly, the behaviour of wages abroad was left out of account; and prophecies were made about our competitive position in export markets without realising that other countries also had full employment and rising wages. And much of the talk of an uncontrollable spiral ignored the facts both that many 'administered' prices do not move automatically with rising wages, and that even ordinary commercial prices often react rather slowly owing to institutional time-lags – e.g. the time between a change in the cost-of-living index and the submission of a wage claim, and the period of negotiation or arbitration on the claim. The consequent 'stickiness' of prices makes it unlikely that an uncontrollable upward spiral will be touched off by a small initial change.

Moreover certain advantages of wage increases were ignored. For one thing, unless wage rates are rising, there must be a steady

<sup>1</sup> *Full Employment in a Free Society* (Allen and Unwin, 1944), p. 199.

<sup>2</sup> p. 47.

<sup>3</sup> *New Fabian Essays*, p. 26.



redistribution of relative income away from those (usually less well-paid) workers on minimum time rates, towards those who are paid by results, and whose earnings rise automatically with higher output. There may (although this is more doubtful) be some link between rising wages and managerial efficiency. Furthermore, movements in *relative* wages can in practice be secured only if the general trend is upwards, with some wages rising faster than others; a constant level of wages would imply that some wages had to be cut while others rose, and this is of course out of the question in the light of the strength of the Trade Unions. And there may even be some advantages in (gently) rising *prices*, in respect, perhaps, of business investment decisions, the yield of taxation, the burden of debt, and even the maintenance of full production. Post-war experience in Europe suggests that stable or falling prices can sometimes be achieved only at the expense of production; the monetary stringency necessary to keep prices down also has the effect of keeping output down, and stability is bought at the cost of stagnation.

Nor is the balance of payments necessarily worsened by a rise in prices. If prices are rising in other countries, the only alternative to an upward revaluation of the pound, if the terms of trade are not to become unfavourable, is that British prices should also rise. Indeed the pound might be undervalued, and the balance of payments require a rise in British prices, for reasons other than a rise in prices elsewhere; most economists would argue that this was the case for some time after the devaluation of 1949.

Naturally none of this means that a severe price-inflation does not have damaging consequences too obvious to need emphasising, or that wage-movements may not be responsible for an excessive rise in prices. It only means that we must keep some sense of perspective in the matter: and that more margin for wage-increases perhaps exists than some of the enthusiasts for a wages policy were inclined to concede.

### III *The Experience of the Post-war Years*

We have now had a decade since the end of the war from which to draw conclusions. Even so the conclusions cannot be final, for almost half the decade was dominated by exceptional post-war

or Korean influences. Nevertheless we can extract some *prima facie* evidence from the behaviour of prices and wages since 1945.

People sometimes speak as though Britain has been in the grip of a continuous and rapid price-inflation for the whole of this period. This is not the case. The value of money has, it is true, fallen sharply since 1945. But the fall has been largely concentrated in particular years, which have alternated with years of comparative price-stability.

The period falls into five fairly clear divisions. From the end of the war to mid-1948 prices rose rather sharply, due less to the rise in import prices (which was largely offset by subsidy increases), than to a condition of general excess demand at home. From mid-1948 to mid-1950, on the other hand, both prices and wages were comparatively stable. Import prices were fairly steady, subsidies were unchanged, and the excess demand had largely been squeezed out. Prices rose by only 2% in 1949 and 3% in 1950, and wage-rates by 5% between March 1948 and September 1950.

Then came the years of the most rapid inflation from end-1950 to mid-1952. This was of course mainly the result of the Korean War. Import prices rose by almost half, and subsidies were not (and could not have been) increased to take the shock. In addition, excess demand returned to the labour market as an inevitable consequence of the large rearmament programme; and to make matters worse, dividends began a rapid climb which touched off a major Stock Exchange boom. The rise in import prices was reversed in mid-1952; but the benefit to the internal price-level was offset by a large reduction in food subsidies.

There followed another period of comparative stability, lasting from mid-1952 to mid-1954. Import prices were not rising, subsidies remained fairly steady, and excess demand again disappeared from the labour market. Prices rose by only  $1\frac{1}{2}\%$  in 1953, and by less than 1% during the first half of 1954; the figures for wage-rates were  $3\frac{1}{2}\%$  and 2% respectively. Lastly, there was a recrudescence of inflation beginning in the winter of 1954-5; and wage-increases again began to gather pace. This was caused by a revival of inflationary demand in the labour market and a deliberate rise in a number of administered prices

(e.g. rents, coal), accompanied by a somewhat extravagant increase in dividends.<sup>1</sup>

The same discontinuity can be observed if we study not the retail price-level, but the behaviour of wage-costs. This is naturally the significant index so far as export prices are concerned. Labour costs (that is, wages and salaries per unit of output) rose by 27% in the economy as a whole between 1948 and 1954, and in manufacturing industry by 20%. But two-thirds of the rise in the economy as a whole, and the *entire* rise in manufacturing industry, occurred in the 'Korean years' 1950-2. From 1952-4 the rise in the whole economy was 4%, in all industry 2½%, and in manufacturing industry 1·7% (with complete stability in the years 1953 and 1954).<sup>2</sup>

I conclude from these figures that the case for a national wages policy is not definitely made out on the grounds that full employment must *ipso facto* induce an autonomous wage-inflation. For a substantial part of the period the rise in wages was at a rate (say 3-4% per annum) which could be accommodated by rising productivity with only a very gentle rise in the price-level, such as has, in fact, been historically normal save in periods of depression. And those years in which there was a clear 'inflationary' element in the wage-rise, and the value of money was declining at a thoroughly undesirable rate, were years characterised by general excess demand, or violent movements in import prices, or significant changes in administered prices, or excessive increases in dividends. Where none of these influences was present, there was no clear sign of a serious wage-induced inflation.

Nor, indeed, even when these influences were present, and the value of money falling sharply, did the anticipated adverse consequences for the balance of payments materialise. Thus it is true that prices and wage-costs rose somewhat (though not sensationally) faster than in either Germany or the U.S.A. The fact that they did was hardly surprising. The American economy proved to be still subject to periodic recessions which, though insignificant by historical standards, were yet sufficient to exert a periodic downward pressure on prices and wages, and

<sup>1</sup> The percentage increase in dividends in January-July over the previous year was 9 in 1953, 22 in 1954, and 21 in 1955. Dividends in 1954 rose 3 times as fast as output, 20 times as fast as prices, 5 times as fast as wage-rates, and 3 times as fast as earnings; and in 1955, 4, 5, 3 times and twice as fast respectively.

<sup>2</sup> *c. Treasury Bulletin for Industry*, August 1955.

hence to depress the average rate of price-inflation over the whole period. In Germany, the labour market situation was exceptional owing to the persistence of large reserves of labour which weakened the bargaining power of the Unions; the rise in wages lagged behind the rise in output per head, and it was only in 1955, when the economy at last came up against the full employment ceiling, that the Unions (and hence wages) began to behave in a manner typical of full employment.

But the rather more rapid rise in British prices and wage-costs did not, until recently, create serious difficulties in export markets (save for the exceptional period in 1949 when almost all world currencies had to be adjusted in the light of the undervaluation of the dollar). This was partly because our export prices in any case rose by much less than domestic prices (due to the fact that since 1950 most of the rise in the latter has been in items, such as food, rents, and fuel, which do not enter significantly into manufacturers' costs): partly because the devaluation of 1949 gave us a considerable margin to spare: and partly because world prices as a whole were also rising for much of the period, so that it was actually desirable for British prices to rise in sympathy if the pound was not to be de-stabilised or the terms of trade to worsen. The constant fears that we were about to be priced out of our export markets did not materialise; and in most years price was less of a limiting factor on our exports than the degree of sales effort exerted by manufacturers, and the length of delivery-dates (both reflecting excess demand in the home market and inadequate export capacity).

#### IV *Excess Demand and Dividend Increases*

However, we cannot rely on being permanently granted this latitude for 'innocuous' wage increases; and in any event the internal consequences of the periods of rapid price-inflation were markedly disagreeable. We must therefore examine the four influences mentioned above as being apparently responsible for the occurrence of such periods; and consider how to eliminate them.

The existence of excess demand for goods (that is, an excess

over supplies forthcoming at current prices) will reflect itself partly in a deterioration in the foreign balance, due to higher imports and/or lower exports: but also in a rise in the price of at least some commodities.<sup>1</sup> This rise may be expected to touch off additional wage-claims.

But the most direct effect on wages comes from the existence of excess demand in the labour market itself. This both further strengthens the bargaining position of the Unions (and the inflated level of profits acts as an additional inducement), and at the same time makes employers, anxious to hold their labour, more inclined to concede the Unions' claims, and even themselves to initiate *sub rosa* wage increases in order to poach labour from their rivals.

How much does this matter? It used to be argued on the Left that excess demand mattered comparatively little, provided that the situation was ultimately held in check by subsidies and price-controls on the one hand, and wage-restraint by the Unions on the other.

This was too optimistic a view. Quite apart from its possible effects on the price level, excess demand has adverse consequences, which will not be prevented by any controls whatever, on both manufacturing efficiency and the level of exports.<sup>2</sup> Moreover price-controls and subsidies, though possible weapons in a short-term emergency situation, are ineffective against a permanent tendency to inflation. A continued rise in subsidies must ultimately deprive the Chancellor of his freedom of manoeuvre, in addition to pre-empting revenue which might be better used in other directions. And controls, whether over prices or investment, since in practice they can be made effective only in the central and hence more essential sectors of the economy, in the long run simply encourage excessive profits, wage-increases and investment in the relatively inessential sectors.

Nor is it right to expect a deliberate, formal policy of wage-restraint on the part of the Unions. It is not the responsibility

<sup>1</sup> This applies especially to (home-produced) food prices, which, now that we have largely returned to free markets, are very sensitive to changes in demand (much more so than manufactured prices). In 1955, for example, this was a significant cause of the 10% rise in food prices, which in turn was largely responsible for the rise in the cost-of-living index as a whole.

<sup>2</sup> c. Chapter XIX, Section II, where a discussion of the meaning of 'excess demand' will also be found.

of the Unions to determine whether or not we have a price-inflation. This is the responsibility of the Government, which should create, by its fiscal and monetary policy, those economic conditions in which the action of Unions and employers will lead (broadly) to the price-level which it desires. To put this responsibility on the Unions is to reverse, or to attempt to reverse, their entire traditional function: to convert them from wage-bargaining organisations mainly concerned to advance the interests of the workers, and on this basis enjoying the loyalty of their members, into organisations primarily concerned with national economic policy. The result could only be to deprive them of the confidence and loyalty of their members, who would no doubt turn to the Communist Party instead, with disastrous results for working-class solidarity, if not for democracy itself.

In any event, a policy of official wage-restraint can never, in the long run, be effective against excess demand. Not only will the Union leadership be compelled after a time, either by the disaffection of its members or the activities of the Communists, to give it up: but even while it formally lasts, it will not stop wage-increases. If profits are at an inflationary level, and all employers desperately short of labour, then whatever is happening to national wage-rates we shall have a steady upward 'wage-slide' as *sub rosa* local increases are granted; and this will eventually engulf the whole policy of restraint.<sup>1</sup> One cannot indefinitely hold a position if the underlying economic forces are pulling hard in the opposite direction. The first condition of reasonable price stability, therefore, is the avoidance of demand-inflation – which is in any case to be desired for the other reasons set out in Chapter XIX.

The second possible cause of excessive wage-claims is an excessive increase in dividends – and the psychological atmosphere which often surrounds such an increase. Thus in 1953-4, although retail prices were fairly stable, there was a surprising amount of wage-unrest which appeared to derive, in part at least, from the impression created by the Conservative Government, as it prated of a free economy, that its role in economic affairs was simply to preside over a general scramble for higher incomes: and that the

<sup>1</sup> *v. Trade Unions and Full Employment* (Swedish Confederation of Trade Unions, 1953), for an excellent discussion of this point, and indeed of the whole question of wages policy.

Crippsian era of patriotism and restraint had given way to a new social climate, in which everyone fought for all they could get.

Now moderate increases in dividends will not have much effect; but rises of 20% per annum, such as occurred in 1954 and 1955, may well be an incitement to excessive wage claims. Nor is this reaction irrational, as businessmen and financial writers appear to suppose. It is true, of course, that the amounts involved are quantitatively insignificant, in the sense that if spread thinly over all wage-incomes they would make little difference. But this is no reason why the Unions should accept them quietly, since they still imply that shareholders' real incomes are rising faster than real wages, and hence that the rich are gaining relative to the poor.<sup>1</sup> There is no reason why this should be welcomed. In any event, as a matter of psychology, it will be impossible to persuade the Unions to accept restraint if industry declares itself prosperous enough to indulge in a dividend spree.

As the previous chapter showed, fiscal policy can be adjusted in such a way as to enforce almost any desired ratio of dividend distribution; and the taxation of capital gains is another method of limiting the reward to shareholders. A higher total taxation of the shareholder than now, however divided between personal and corporate taxation, is therefore probably a condition of a non-inflationary wage situation. What we still do not know is whether this will prove sufficient, or whether, for psychological reasons, statutory limitation might not also be required. I personally doubt whether it will, under normal circumstances, and provided the other conditions for price-stability are present; but we must wait for more experience before coming to a final verdict.

There is an allied point here. The suspicion created by a dividend boom may be part of a wider suspicion that wages are not obtaining their 'fair' share of a rise in productivity. Now wage-earners have no prescriptive right to all the fruits of higher productivity, since this might be due to improved management or the installation of more capital, rather than to greater efforts on their part. In any event, whatever it was due to, it might be argued that the benefit should accrue to the consumer in the form of lower prices, or to old-age pensioners, or capital investment.

<sup>1</sup> *v.* Chapter XVII, Section V, for the justification for this statement.

But this sort of argument proves very little about wages policy. First, as to where the credit lies, one can never definitely impute a rise in output to one factor of production rather than another. Secondly, the right distribution of the higher output, which is certainly an issue of cardinal importance from the point of view both of social policy (which requires that a significant fraction of it should accrue to social service beneficiaries) and the needs of economic growth (which require that a further fraction should accrue to savings), is nevertheless nothing to do with the wage-bargain. It is a direct responsibility of the Government, to be achieved mainly through fiscal policy; and it should not be sloughed off on to the shoulders of management and the Unions.

And the fact remains that if productivity is rising fast, and with it profits and dividends, the workers feel entitled to a substantial share of the proceeds. Pieceworkers and all those paid by results will, of course, automatically gain a share in the form of higher earnings. But timeworkers will not; and since they are normally the lower-paid amongst the workers, they will naturally become extremely discontented.<sup>1</sup>

There may therefore be a case, as was argued in Chapter XVI, for linking wage rates as well as earnings more formally to movements in productivity. This can occasionally be done by a bonus system operated by a single firm. But it is for discussion whether the Unions might not establish a more definite link in national wage-bargains, and project the link some years ahead. This is already done in some American collective agreements, along the lines of the 1950 'Treaty of Detroit' between General Motors and the auto union; one recent agreement,<sup>2</sup> for example, provides for an annual, automatic 3% 'productivity' increase in wage-rates, in addition to a cost-of-living escalator clause. If a more formal link could be established, so that the workers knew their wages would rise proportionately and automatically with rising productivity, there might be a good deal less suspicious wage-unrest than there is to-day.

<sup>1</sup> For the importance to Union attitudes of the position of timeworkers on minimum wage-rates even in industries where they are in a small minority, *v.* Report of the Court of Inquiry into the 1953-4 engineering dispute (Cmd. 9084).

<sup>2</sup> Between General Electric and the International Union of Electrical Workers.



v *Administered Prices and Import Prices*

The last common cause of wage instability is a prior increase in the cost-of-living. This must be due to some external factor, since in a progressive economy with rising productivity one would naturally expect prices to fall; or at least one would not expect them to rise of their own accord, causing the Unions to put in wage-claims in order to maintain the value of real wages.

The external factor might be a rise in 'administered' prices, that is, in prices controlled by the government in accordance with other than market or commercial criteria. This could occur through a cut in subsidies, an increase in indirect taxes, a rise in controlled rents, or an increase in the prices of goods sold by nationalised industries where these had previously been held below their economic level. Any of these might touch off additional wage-claims; and all, of course, could be avoided if the government so chose.<sup>1</sup>

The importance of administered prices is much greater than is commonly supposed, if only because they bulk so large in the cost-of-living index. Indeed if we exclude the effects of the Korean War, their behaviour explains a surprisingly large part of the price movements of recent years. Up to 1950, the Government, using subsidies, price and rent controls, and its powers over nationalised industries, deliberately prevented the British cost-of-living from adjusting itself fully to the world-wide inflation then occurring. Since 1952, however, by which time the post-war price inflation had largely spent itself in the world outside, British Governments have equally deliberately levered the cost-of-living upwards towards the world price-level. This explains the contrast since 1952 between price stability in most other Western countries, which had already largely completed their post-war adjustments, and a continued price inflation in Britain,

<sup>1</sup> It does not of course follow that they always should be avoided. They may have compensating advantages, even from an anti-inflationary point of view. Thus a rise in purchase-tax, although it might lead to higher wage-claims, would also reduce demand and hence the degree of inflation in the labour market. Whether it was justified or not would depend on what weight was to be attached to these considerations respectively. But I certainly do not share the view of some Labour spokesmen that any increase in purchase-tax automatically justifies a compensating wage-increase – there are circumstances when working-class consumption may have to be reduced – any more than the opposite view that any reduction justifies a wage-cut.

as we finally embarked upon our own adjustment five years later than the rest of the world.<sup>1</sup> That this inflation was primarily due to the behaviour not of manufactured prices, but of administered prices, may be seen from the fact that almost the whole rise in the retail price index since 1952 has been in food (caused partly by the cut in subsidies), fuel and light (caused by the deliberate increase in coal prices), and rents (again a deliberate rise).

But there may be some mild encouragement here for the future. A large part of the adjustment of controlled or subsidised prices to more normal levels has now occurred; and this particular cause of wage-instability should at least be weaker from now onwards.

But the most characteristic non-wage cause of a rise in prices is a sudden rise in import prices, such as occurred in 1950-1. In the long run, the wage level must probably adjust itself to such a rise. But in the short run, if there seems a danger of a wage-price spiral getting out of hand, there are temporary counter-measures which might be taken.

The most obvious is to subsidise the retail price index. This is not easy if import prices are rising fast. First, the subsidies must be paid for out of taxation which does not itself raise prices, that is, out of direct taxation. Secondly, if the object is to maintain the working-class standard of living as well as to secure wage-stability, the higher direct taxation must fall wholly on the wealthier classes, and cause them to reduce their consumption correspondingly. This again is not easy at present tax levels, since the wealthier classes are both able and willing to maintain their consumption in the face of higher taxation by drawing on personal capital; and to the extent that they do, the purchasing power of the workers is increased by the subsidies with no diminution in purchasing power elsewhere, and a demand inflation is inevitably generated.

But subsidies might still play a temporary role in restraining wage demands even though they effected no transfer of consumption from rich to poor, nor even stabilised the working-class cost-of-living as a whole. This would occur if the Unions, in

<sup>1</sup> From January 1952 to end-1955 British retail prices rose by 16%, despite a fall in import prices of 7%. During the same period, retail prices scarcely moved in the U.S., Germany, and France.

deciding on wage-demands, paid more attention to the behaviour of food prices than to either the total working-class cost-of-living, or real standards of working-class consumption. Wage-claims could then be damped down by an increase in food subsidies (or the subsidisation of an agreed 'basket of goods')<sup>1</sup> even though this were financed by higher taxation which fell (partly at least) on the workers themselves.

Whether the Unions are in fact more amenable to a fall in real disposable wages brought about by a rise in the price of semi-luxuries or by higher income taxation, than to one effected by a rise in the price of food, one cannot be sure. But if they are, their attitude may not be as illogical as is sometimes supposed. It was suggested in a previous chapter that a sharp rise in food prices often had harmful social results, whether or not total real wages were maintained, on account of the redistribution of family income, away from the wife and children towards the husband, which it caused.<sup>2</sup> Moreover (though the two points may be linked), it does in fact appear that a fall in real wages brought about by a rise in prices is exceptionally unpopular. Keynes in a famous passage once talked of the wage-earners' 'money illusion', meaning by this that they were willing to accept a fall in real wages through a rise in prices, but not through a cut in money wages. But to-day the British public seems more susceptible to the opposite – a 'price illusion'. They are content to accept stability of real wages if money wages and prices are both constant, but not if money wages and prices are both rising by equal proportionate amounts; and a rising cost-of-living, even though wage-earners' total real consumption is fully sustained, breeds a particularly strong hostility to the Administration of the day.

There may therefore be an argument for a temporary policy of subsidisation in the event of an unusually sharp rise in import prices. But there are also arguments against it. Subsidies are easy to increase, but hard to reduce; and as a long-run form of social payment, especially at a time when a Labour Chancellor will be faced with many other urgent social claims, they are not by any means satisfactory.<sup>3</sup> Moreover to the extent that the subsidy

<sup>1</sup> v. G. D. N. Worswick, 'Personal Income Policy', *The British Economy*, 1945-1950, Ch. 14.

<sup>2</sup> v. Chapter VII, Section VIII.

<sup>3</sup> v. Chapter VII, Section VIII.

policy was effective, the terms of trade would worsen; and if the pound was not allowed to appreciate the balance of payments would suffer. An increase in subsidies should therefore be treated as a defence of last resort.

Another possible short-term measure would be the imposition of price-controls on a range of essential goods. As a long-term policy this is also open to objections (discussed in Chapter XXIV);<sup>1</sup> but as a temporary measure for preventing or moderating a menacing wage-price inflation, it may have some good effect. It is sometimes said that to attack rising prices is merely to attack the symptom, and not the basic malady, which is the existence of excess demand. Indeed some people argue that to hold prices down will increase the inflationary gap, which can only be closed (if no action is taken to reduce demand) by allowing prices to rise until the money value of available goods equals the money value of total demand.

Even if this were true, price-controls might still be useful for coping with a price inflation due to rising import prices, and not fundamentally to excess demand. But in fact they may also be useful in the latter case, since demand is heavily influenced by expectations. The typical inflationary situation is one of a general expectation of a *continuing* rise in prices. Buyers then rush to stock up before things get worse, and so raise the total level of demand. But the imposition of price-controls may eliminate that part of the demand which is based on the expectation of further price increases; and it here attacks not merely the symptoms, but one of the underlying causes of the inflation. There is evidence from American researches that the announcement and enforcement of price-controls can have this effect in practice, and so significantly reduce the inflationary pressure.<sup>2</sup>

A combination of price-controls, subsidies, and a temporary 'wage-freeze' negotiated with the Unions, might be a possible stop-gap policy if a rise in import prices threatened to touch off a really rapid wage-price spiral. But it could only be a stop-gap. If world prices have risen significantly, then either the British price-level or the rate of exchange must eventually move in sympathy. In theory there is much to be said for having a

<sup>1</sup> I am referring here only to anti-inflationary price-controls on a wide range of goods; there is a strong case for selective price-controls as an anti-monopoly measure.

<sup>2</sup> v. Katona, *Psychological Analysis of Economic Behaviour*, Ch. 12.

floating rate of exchange, and allowing this to take the strain. This would no doubt cause mutterings in the corridors of the International Monetary Fund, and frowns at the Bank of England, which might not matter very much. But there are serious practical objections to a floating rate, which may rule it out as a solution; and if we exclude also a once-for-all upward revaluation of the pound, then a rise in the domestic wage and price level is positively to be desired in order to prevent the terms of trade from deteriorating. It is then a matter of using fiscal and monetary policy to keep the rise under reasonable control, and taking measures, notably in relation to social service beneficiaries, to prevent a haphazard and unwanted transfer of real income.<sup>1</sup> But it is hardly likely, unless shooting breaks out again, that we shall face another situation as formidable as that of 1951.

## VI *Practical Objections to a National Wages Policy*

If we do not, and if governments attend to the other matters mentioned in the two previous sections, I doubt if a 'national wages policy' is called for. In any event, I see grave difficulties about applying such a policy in Britain.

It is said that it works well in other countries – in Holland, for example, or Scandinavia. In fact there is a great deal of doubt as to whether it works well at all – in Holland it seems to be breaking down, and in Sweden wages are far from being under proper control. But in so far as it does work, this appears to be due to a historical background quite different from anything known in Britain – highly centralised Union and employers' organisations, or continuous spells of Socialist government, or the absence of a militant shop-stewards' movement, or a highly developed sense of social solidarity, and a rare freedom, as compared with Britain, from worker-employer class hostility. Even if none of the other differences existed, the fact that the British Unions show no intention of surrendering their long-established wage autonomy to the General Council of the T.U.C. means that there is little prospect, in the foreseeable future, of a wages policy formulated and largely enforced by the Unions themselves.

<sup>1</sup> cf. the proposal in *Challenge to Britain* to adjust social service benefits annually to changes in retail prices.

The British advocates of a wages policy therefore rely on the government as their chosen instrument. The most popular suggestion<sup>1</sup> is that the government should first announce a global sum for the rise in the wages-bill which the country can afford: and that this should then be allocated by a National Wages Board enjoying statutory powers to supervise and co-ordinate all collective agreements, and basing its decisions on such criteria as the cost-of-living, the movement of labour required, changes in productivity, and so on.

I see serious difficulties in the notion of the global sum. It is apparently to be a sum in real terms: the real national product will rise by  $x$ , exports require an increase of  $y$ , investment of  $z$ , etc., leaving  $x-y-z$  for a rise in home consumption, of which some stated fraction is allotted to wages.

This is not going to be a simple matter. The calculation of the global sum might be just possible – though with our present techniques of forecasting very hazardous; its actual division in practice would be singularly difficult. It implies that reliable guesses can be made not only about how much can and should be allotted to exports, investment, government expenditure, and so on, for the year ahead: but also how much can and should be allotted to all non-wage incomes – salaries, rents, dividends, farm incomes, etc.; and then that these sums can actually be steered in the right directions. This presupposes a degree of precision in the techniques both of forecasting and implementation which still lies some way in the future. One fears a repetition of the story of the early *Economic Surveys*: of targets stated in exact quantitative terms, and regularly missed, with the whole business of planning coming into disrepute.

And even when the sum for wages has been fixed, it will not be easy to distribute. The criteria will often be conflicting; and while we can say in broad terms that this industry has a rather more urgent need for labour than that, or that these wages seem rather too low relative to those, we are still some way from being able to make exact allocations on any very sensible basis. The most likely outcome is that the Board, subject to strong pressure from every Union and with the threat of industrial action in the background, will simply take refuge in the well-tried formulæ of fair shares and non-discrimination; and the wages structure

<sup>1</sup> *v.*, for example, Flanders, *loc. cit.*, and *Keeping Left*.

might even become more rigid than under the present haphazard, but perhaps more flexible, system of separate bargaining.

Nor is it clear that industrial unrest would be diminished. When the sum is zero, or even negative, as it might be in a year of balance of payments crisis, the furore will surely be worse if this is to be publicly announced. When it is large, the Unions may take this as an invitation to put in even higher claims than they might otherwise have done. The division of the sum between increases in wage-rates and automatic increases in earnings will lead to much inter-Union friction. And it will be almost impossible, without looking ridiculous, to allow a deliberate rise in money wages, but without a rise in real wages, such as might be required to improve the terms of trade.

And quite apart from the difficulties connected with the global sum, would the establishment of a National Wages Board diminish industrial unrest? No doubt men of detached and sober judgment will usually agree with its recommendations, but will the workers? The Communists are already stirring up trouble wherever they can: will not the fact of Government intervention, avowedly on the side of greater restraint, merely give a sharper edge to their propaganda – especially as for much of the time the Board will be Tory-appointed, and therefore suspect from the start? Again, there is already discontent with the delays involved in settling wage claims: surely this will be increased by the insertion of yet another stage in the process, since the Board is to supplement and not replace the existing machinery? And it is not clear how the decisions of the Board could be enforced in the face of a threat to strike. This is not an academic point. We have recently had threats of strike action against the decisions of arbitration tribunals, so why not against the Board? No Government would dare to try and enforce a decision of the Board in the face of a major stoppage; yet the first surrender would bring the whole elaborate structure toppling down.

It is no doubt considerations such as these which make the Unions so chary of proposals for a central Board. Even if they were less well-founded, the hostility of the Unions would still present an insuperable obstacle. No policy for wages stands any chance of success unless willingly accepted by the T.U.C.; and the suggestion for a National Wages Board, not being so accepted, is not in any case practical politics.

## THE DETERMINATION OF WAGES

I conclude that a national, centralised wages policy is, in the first place, impracticable and unwise. It goes against the British tradition of Trade Union autonomy and independence of government control; and it is open to strong objections in detail. Certainly a strengthening of the T.U.C. itself *vis-à-vis* its constituent Unions is much to be desired; and no doubt the Government might slightly improve matters by having, and stating, a clearer view of its 'ideal' wages policy for the year ahead. But any more elaborate structural change would probably make matters worse rather than better.

But secondly I conclude that the case for a wages policy on anti-inflationary grounds is not, in any case, as yet made out. There is no definite evidence that a dangerous degree of wage inflation inevitably follows, under conditions of full employment, from the present method of free collective bargaining, or would occur in the absence of an exceptional rise in import prices, an excessive rate of increase in dividends, and above all general excess demand in the labour market. This is, in the nature of things, a provisional conclusion, since our experience of peace-time full employment is still brief. But I judge that a government bent equally on avoiding inflation, and creating an egalitarian social climate, could rely quite well on the sense and moderation of the Unions to maintain a reasonable degree of internal stability.<sup>1</sup>

<sup>1</sup> It is often forgotten, for example, that after devaluation the T.U.C. actually proposed a *cut* in real wages; their recommendation was for a complete wage stand-still unless the retail price index rose by more than 6 points from its then level. Although this proposal somewhat outran the loyalty of the rank-and-file, and in any case proved unnecessary owing to the subsequent under-valuation of the pound, it makes something of a contrast to anything that could have been looked for from the City or from business leaders.

But of course this moderation depends entirely on the success of the Unions in preventing any further extensions of Communist control. If the Communists were to gain power in (say) two more large Unions, there would be little hope of any stability.



## THE ECONOMICS OF NATIONALISATION

I *The Pre-war Case for Nationalisation*

IN the 1930s, the central importance of nationalisation was taken for granted in the Labour Party. Occasional rumbles of dissent might be heard from those with traces of anarchism or guild socialism still in their blood, but such people were few and far between, and considered rather crankish; and generally it was assumed that every Labour programme would be built round a number of major acts of public ownership.<sup>1</sup>

Nationalisation was desired partly for reasons specific to particular industries, that is, in order to control the use to which particular capital assets were put; and partly for reasons common to all industries, that is, because it was thought that 'socialism' was ultimately consistent only with the public ownership of all (major) capital assets. The specific reasons, which naturally determined the order in which industries were to be nationalised, were as follows.

First, the Public Utility argument. It is a characteristic of certain industries providing essential services either that the basic size of plant is very large in relation to the market (gas, electricity), or that an elaborate 'octopoid' system of distribution (by piping, cabling, wiring, railway lines, etc.) involves extremely heavy

<sup>1</sup> There were a few, but very few, exceptions. The most notable was Mr. Jay, in whose book *The Socialist Case* nationalisation only appears, in his own words, 'at a very late stage in the argument' – to be exact, on p. 321 in a book of 356 pages; and even there it only attracts some 15 pages of argument. But Mr. Jay, writing as a financial expert, devoted far more space than was usual to the problems of redistributive fiscal policy and monetary stability.

capital costs. Any duplication of such productive or distributive equipment would be clearly wasteful, and simply cause under-utilisation of the competing capital assets. It has therefore long been recognised that such public utility industries were unsuitable for competition, and that monopoly (either on a local or national scale) must be permitted. But all Governments have insisted, as a safeguard against possible exploitation, on an elaborate supervision of such monopolies; and the tradition of public regulation had grown to the point where outright public ownership seemed a simpler and more logical solution.

Secondly, the Monopoly argument. While it was conceded that cartels might perhaps be disrupted by suitable legislation, it was argued that large single-firm monopolies, or trusts, were often justified by technical economies of scale which would be lost, to the disadvantage of the consumer, if competition were to be forcibly restored. Since it appeared, to most economists as well as to socialists, that private monopoly inevitably constituted a threat of exploitation (political and social even if not economic), the natural solution seemed to be to substitute public for private monopoly by means of nationalisation.

Thirdly, the Basic Industry argument. There are certain commodities, used normally by a wide variety of other industries, on which the prosperity of the community depends to an especially marked degree, so that any breakdown or weakness in their production, and indeed generally the level of their output and prices, is a matter of particular public concern – to such an extent as to require the extreme solution of public ownership.

These three arguments all relate to the essential structure of an industry, or its strategic position in the economy – that is, to certain inescapable characteristics which make it a natural candidate for state monopoly. The Efficiency argument, however, which comes fourth, has a more general application. It was most commonly based on the economies of large-scale organisation. These were thought to apply almost universally, and virtually without limit, and to provide a general argument for unification and co-ordination such as would be possible only under a single ownership. The word competition was always preceded by the epithet 'wasteful', and efficiency was held to be largely a function of monopoly control.

There were some industries in particular where the advantages

of unification seemed likely to be overwhelming – industries, for example, where the optimum size of plant was larger than the average existing size (electricity, gas), or where redundancy clearly demanded large-scale re-organisation (coal and steel, as it seemed in the 1930s), or where wide differences in efficiency separated the best and worst plants, pointing to a redistribution of output within the industry (coal and steel again), or where overheads were so high that competition must lead to a wasteful under-utilisation of capital equipment (road versus rail). It was, in theory, admitted that there were industries to which these strictures did not apply, and which might be well served by a purely competitive solution. But this was thought to be an academic point, owing to the inexorable tendency of capitalist industry, always forecast by the Marxists and strongly in evidence in the 1930s, towards large scale and the concentration of control.<sup>1</sup>

Thus the efficiency argument came to be bound up with a justification of monopoly control. Naturally, existing single-firm monopolies were to be taken over – but because they represented a dangerous concentration of power, not because they were inefficient. Indeed, they represented, so far as their organisation was concerned, the ideal to which large-scale industry ought to conform; where it failed to do so under the spur of market forces, it must be compelled to do so under the aegis of state enterprise.

Lastly, the Planning argument. Generally, this was based on the belief that the profit motive and the national interest must always be in conflict. Specifically, it was applied most commonly to the basic heavy-investment industries, in which the level of investment dictated by profit-maximising considerations was both on the average too low to ensure full employment, and also too fluctuating to avoid cyclical instability. These were also the industries in which private and public interest were most liable to clash when it came to questions of the location of new plant or the shut-down of old; and Jarrow and Ebbw Vale became notorious symbols of this divergence.

<sup>1</sup> A typical judgment, which could be duplicated from almost any pre-war book on socialism, was that of G. D. H. Cole. 'Monopoly, or at least something approaching it, is the rule, and keen competition the exceptional case. . . . It is not possible, even if it were desirable, to go back to the old system. . . . The choice to-day is no longer between competition and monopoly, but between monopoly-capitalism and socialism.' (*A Plan for Democratic Britain*, pp. 29-30.)

## THE ECONOMICS OF NATIONALISATION

In addition to these economic arguments for nationalising particular industries, there were also the wider (and older) social arguments for the public ownership of all major industries, irrespective of the order in which they were taken over. First, it was thought by some socialists that the profit-motive as such was ethically wrong, and could be eliminated only by nationalisation. Secondly, it was thought that harmonious labour relations and the creation of industrial democracy could be achieved only under public ownership.

Thirdly, it was assumed that equality required the extinction of private incomes from property, which in turn required the expropriation of the capitalist. Originally this was conceived as occurring automatically with the transfer of ownership. But later it came to be realised that complete confiscation of private property by nationalisation was neither just nor politic, and that reasonable compensation must be paid. The argument was then that nationalisation, although it would not destroy, would yet diminish property incomes, since equity holdings, carrying with them the likelihood of a gradual rise in dividends and capital values, would be replaced by fixed-interest compensation stock, carrying with it no such long-run prospect, and even in the short run generating an income that was smaller as the risk was smaller.

When it came to deciding what industries to nationalise, these arguments all pointed in broadly the same direction. The wider social arguments pointed to taking industries over in order of size. And the largest industries were in fact either public utilities (gas, electricity, railways), effective monopolies (coal, steel), basic private enterprise (coal), apparently inefficient under central re-organisation (coal, gas),<sup>1</sup> heavy capital-users (electricity, steel, transport), or subject to exceptionally bad labour relations (coal). Other, less important, industries were added for special post-war reasons (raw cotton purchasing, civil aviation, cable and wireless). But broadly the 1945-50 list seemed obviously dictated by these various criteria. Indeed it was so far accepted by public opinion that the greater part of it is still in public ownership after several years of Tory rule.

<sup>1</sup> cf. the Reid Report on coal (Cmd. 6610) and the Heyworth Report on the gas industry (Cmd. 6699).

II *Post-war Experience of Nationalisation*

But do we now simply go on, and in our next period of office take over the next five largest industries, and so on *ad infinitum*? Not many socialists would now definitely answer yes; and for the first time for a century there is equivocation on the Left about the future of nationalisation.

For this there are several reasons. The first and most obvious is that the reality proved rather different from the blueprints. Some of the anticipated advantages did not materialise; while certain unexpected disadvantages emerged.

The planning argument, for example, looks a good deal less clear-cut than it used to. I am not thinking simply of the considerations (sufficiently discussed elsewhere in this book), first, that the distinction between public production for use and private production for profit has in any case lost much of its force at present levels and distribution of purchasing power, and secondly that one can scarcely argue, after the experience of the last ten years, that full employment requires as an absolute condition a much larger public sector: but of the fact that even where planning was admitted to be desirable, it proved scarcely easier to achieve under public than private ownership.

This was due to changes on both sides. On the side of private ownership, whereas before the war it was assumed – surprisingly, in the light of the total control of the Nazi Government over a privately-owned economy – that power resided in titular ownership, so that a change in ownership was a condition of state control, to-day it is realised that planning can be made effective even in the private sector. The government has access to a wide variety of fiscal, physical, and monetary controls; and although these are not of perfect efficiency, and too much is sometimes expected of them, yet they do enable the government broadly to impose its will on private industry.<sup>1</sup>

While control over the private sector thus exceeded expectations, control over the public sector fell short of them. Chapter I has already drawn attention to the independence of some of the Nationalised Boards, and their lack of public accountability. Indeed it was a common saying that the Government had less

<sup>1</sup> *v.* Chapter I for a full discussion of the loss of economic power by private industry.

power over Lord Citrine than over I.C.I.; and the quip was not without force. The Bank of England, for example, continued to pursue a highly independent policy of its own, especially in the field of the foreign exchanges. In the crucial fuel and power industries, control was almost non-existent. The three industries were allowed to go their own independent way: each competing and advertising against the other, each charging the lowest price it could (and indeed encouraged, and in the case of coal compelled, to do so by the Government itself), each unrestrictedly pushing sales in every direction, oblivious of the fact that coal was desperately scarce and large economies clearly possible if policy were only unified. It was a situation which cried out for government co-ordination, either through prices or physical controls; but none was forthcoming.

Investment policy was similarly unco-ordinated. It was argued before the war that one of the advantages of nationalising heavy-investing industries was that their large investment plans would become a stabilising factor in the trade cycle – to be retarded when private investment was booming, accelerated when private investment was lagging. This never in fact occurred; and fluctuations in private investment simply increased or diminished the degree of inflation, with little effective attempt at countervailing action.

The reasons for this outcome were twofold. First, the planning issues which arose had not been properly anticipated, nor were they always clarified even as time went on. The Ministers themselves, therefore, often had no clear policy which they *wanted* to impose on the Boards; and so they took the line of least resistance, which was to allow the Boards to do more or less as they wished.<sup>1</sup>

Secondly, however, even when Ministers held clear views, they were often reluctant to impose them on account of a rather dogmatic attachment, rooted in the Morrisonian conception of nationalisation, to the theory of the independent public board.<sup>2</sup> In so far as this helped to ward off detailed Parliamentary supervision, or even state department nationalisation, it was thoroughly healthy. But it was often pressed to an undesirable extreme in which the Minister, nervous of intervention though enjoying far

<sup>1</sup> This was true for quite long periods in both the transport and fuel and power industries.

<sup>2</sup> cf. Mr. Morrison's *Socialisation and Transport* (Constable, 1933), and his evidence to the 1953 Select Committee on Nationalised Industries.

greater powers under the post-war than under corresponding pre-war Acts, simply tended to behave, especially in Parliamentary debates, as counsel for the defence, and rarely used his powers of direction.<sup>1</sup>

Of course this is largely a question of politics. The truth is that there is now no insuperable *economic* difficulty about the Government imposing its will, provided it has one, on either public or private industry. Indeed post-1945 experience in the planning field strongly underlines one of the main arguments of Part One, namely, that ownership is not now an important determinant of economic power. The Government has all the economic power it needs – the only question is whether it chooses to use it; and from this point of view the mere change in ownership did not always make a decisive difference.<sup>2</sup>

At any rate, whatever the reasons, the planning argument for more nationalisation has, for the moment, fallen into some disrepute. It can now only be held to apply if three conditions are fulfilled: first, that Ministers have a clear idea of what their planning objectives are; secondly, that these objectives cannot be achieved by fiscal or physical controls; thirdly, that Ministers are in fact prepared to plan for their achievement under nationalisation.

Allied to the planning failure was a pricing policy which prevented the full achievement of another of the objects of nationalisation, the transfer of wealth from private to public hands. This has already been discussed elsewhere.<sup>3</sup> Briefly, the refusal to allow the Boards to build up large surpluses (besides often leading, as in the case of coal, to a serious misallocation of resources) meant that savings in the public sector were zero or negative, and hence that total savings were more heavily concentrated than they need have been in private hands. A quite different pricing policy would have been required to achieve the objective of greatly increasing public relative to private capital.

These two failures are in principle remediable, in the sense of having been due to freely-chosen government policies (for which, to be fair, there were some strong practical arguments). But other

<sup>1</sup> Of course questions of personality also came in. Lord Citrine in particular emerged as an apparently untamable figure, beyond the control of any Minister.

<sup>2</sup> The question of planning is further discussed in Chapter XXIV.

<sup>3</sup> *v.* Chapter XIX, Section IV.

difficulties emerged which appear to be inseparable from nationalisation as so far envisaged; that is, they are inseparable from monopoly and large (indeed enormous) scale.

We now understand rather better that monopoly, even when it is public, has definite drawbacks. Not only is there a genuine restriction of freedom involved in forbidding the citizen by law to start producing certain goods, and an even more dangerous restriction, notably in those cases (such as the B.B.C.) which call on highly specialised talent, in having only one employer:<sup>1</sup> but competition is seen to bring greater advantages than pre-war socialists realised – in preventing sloth and encouraging initiative, and in increasing the sense of consumer welfare (as we observed from the public reaction to the end of rationing) by allowing a free choice of goods and suppliers. Naturally this does not mean that monopoly has no advantages and competition no faults, but only that the balance of advantage now looks rather different. Nor of course does it mean that competition is always physically possible; on the other hand, pre-war Marxist prophecies of its inexorable decline have not been fulfilled, and we have a wider choice between competition and monopoly than was once supposed.

But perhaps the biggest change of view has occurred on the subject of large scale. Before the war, it was treated as axiomatic that, in the words of a typical and well-known judgment, 'large-scale production, especially when conducted in large-size firms and plants, results in maximum efficiency'.<sup>2</sup> To-day we are not so sure – at least beyond a certain size. It is not that the technical economies of scale are in dispute, but that doubts have arisen as to whether these may not be offset by diseconomies in other spheres, such as labour morale (leading to a higher accident rate, more absenteeism, and a less willing attitude to work),<sup>3</sup> or managerial responsibility and control, with the risk that the process of decision-making may become over-centralised and hence slowed

<sup>1</sup> 'The Fabian Society does not suggest that the State should monopolize industry as against private enterprise or individual initiative. . . . The freedom of individuals to test the social value of new inventions; to initiate improved methods of production; to anticipate and lead public enterprise in catering for new social wants; to practise all arts, crafts, and professions independently; in short, to complete the social organization by adding the resources of private activity and judgment to those of public routine, is . . . as highly valued by the Fabian Society as Freedom of Speech, Freedom of the Press, or any other article in the charter of popular liberties.' (G. B. Shaw, *Fabian Tract No. 70*, 1896.)

<sup>2</sup> P. Sargant Florence, *The Logic of Industrial Organisation* (Kegan Paul, 1933), p. 11.

<sup>3</sup> v., for example, *Size and Morale* (Acton Society Trust, 1953).



down.<sup>1</sup> So far, none of these points is proven one way or another. But it seems clear that at any rate enormous scale is not an unmixed blessing, and in particular that it must bring with it at least the danger of over-centralisation.

This danger has not in practice always been avoided; and this is one of the reasons (though there are others) for the disappointment of yet another of the hopes of nationalisation, namely that it would rapidly and significantly improve labour relations, offering at the same time the hope of a steady advance towards industrial democracy.<sup>2</sup>

Some of these problems may recede as we gain a clearer idea of how to run these vast organisations. At the moment we have a huge area of disagreement – about the degree of public accountability and Parliamentary control required (the 1953 Select Committee showed a glaring divergence of view not only amongst politicians, but even amongst members of different Boards): on the issue of centralisation or decentralisation of management control, and how much latitude to allow to the operational management level: about how to make joint consultation effective: on what role (if any) to allot to Consumer Councils: on promotion policy, on which the Unions lean to seniority and the management to merit, with no agreement about the recruitment of University graduates: and so on. But for the present, at least, it can hardly be denied that public-monopoly nationalisation, despite considerable achievements in certain exceptionally difficult industries, no longer seems the panacea that it used to.

### III *The Case against a Proliferation of State Monopolies*

Even if these difficulties had not arisen, we should still face the fact that the specific economic, as opposed to the wider social, criteria, do not now point unequivocally to a particular list of industries. There are no more public utilities (except for water), and no more industries (except for steel) which can be described

<sup>1</sup> Another source of doubt is the growing realisation that neither the average plant nor the average firm is significantly larger in the U.S.A. than in Britain (v. Florence, *The Logic of British and American Industry*, Ch. I).

<sup>2</sup> v. Chapter XVI, Section III, for a discussion of nationalisation and labour relations.

as basic in the sense that coal or railways are basic. And if we adopt the policy of simply tackling industries in order of size, we find that the next most obvious candidates – chemicals, motor-cars, aircraft, shipbuilding, radio, electrical equipment, and so on – are not for the most part monopolies, nor in need of centralised planning, nor obviously inefficient, nor indeed suitable for organising on a national scale. They are industries quite different in kind from the 1945–50 list, above all in respect of their suitability for monopoly control and their level of efficiency.<sup>1</sup>

On the first point, they are not (with the exception of certain heavy chemicals) monopolies, but competitive oligopolies. (Plenty of monopolies exist, but mostly either in small industries (e.g. matches), or else of the cartel variety which can and should be dealt with by anti-monopoly legislation). Nor are they 'ripe' for nationalisation in the sense that although not yet monopolies, they would be improved by becoming monopolies. On the contrary, most of them would be damaged if this occurred; the element of competition is essential to their efficiency, the units are not obviously of less than optimum size, and their type of product and market is such that centralised control would be disadvantageous. Old-model nationalisation would mean imposing a state monopoly on unsuitable and competitive industries, with the corollary of a large increase in the area of unitary control.

They are unsuitable for old-model nationalisation for other reasons also. The 1945–50 industries had, for the most part, clearly defined boundaries, a relatively simple and homogeneous output normally consisting of a service or raw material, few marketing problems, and a fairly predictable (in the short run) demand. These industries, on the other hand, have indistinct boundaries, a diversified range of output, and a much less stable final demand. Thus once we move from the basic industries into the sphere of manufacturing, an industry becomes extremely hard to define. As multi-line production has spread, overlapping has become general; and most large firms to-day sprawl over several 'industries' at once. The lack of coincidence in the boundaries between firms and those between industries faces the would-be nationaliser with problems of definition far more intricate than

<sup>1</sup> I am assuming that steel and road transport belong to the 1945–50 list, and are re-nationalised. I also ignore certain of the next largest industries for whose nationalisation no demand appears to exist on the Left, so obviously unsuitable are they (e.g. textiles).

those which caused such difficulty even in the relatively simple case of steel.

The fact of multi-line production, moreover, elevates sales and marketing policy to a position of much greater importance than it occupies in the existing public sector. The demand for manufactures tends in any case to be less predictable than that for basic services. But, in addition, the more variegated the output (and the more products are 'branded'), the more central becomes the role of sales policy. This would be so even in an industry catering solely for the home market. But the metal, engineering, and chemical industries are also producing for the export market, where the competition is fiercer, the risks greater, and the fluctuations much more marked. Here the marketing problem, and the need for continuous rapid adaptation to the vagaries of a buyer's market, assume an even greater importance. There is a wealth of difference between selling cars or electrical goods in a highly competitive export market, and selling coal or electricity in a monopoly home market; and it is not clear that the routine type of management which appears to be characteristic of centralised public boards, suitable though it may be for the basic utilities, would be flexible and dynamic enough for this quite different task.

At any rate it is evident that highly competitive and export-oriented manufacturing industries, often producing branded goods, and faced with demand curves at once volatile and strictly indeterminate, are very different in character, and in the problems they present, from the industries nationalised in 1945-50. The latter might reasonably be expected to fare well under a centralised public corporation; it is not self-evident that the former would.

Quite apart from their *structural* suitability or otherwise for nationalisation, it cannot be said that these industries are so patently inefficient or unprogressive (as one could have said of coal before the war) as imperatively to demand a change of ownership. Whether judged by output, productivity, exports, or investment, their post-war record has been at least a reasonable one—indeed the metal, engineering, and chemical industries have been responsible for by far the greater part of the rise in production and exports since the war.

This does not mean that they are of perfect efficiency, or that

serious flaws cannot be found. Naturally, being human organisations, they fall very much short of perfection. It simply means that a reasonable man would judge their economic record to be better than the average, and would doubt whether it was likely to be improved by a transfer to public ownership.

Thus the chemical industry, for example, which figured (rather obscurely) in Labour's 1955 election programme and is the favourite next candidate of Conference resolutions, can show a post-war rise in output twice as large as the average for industry as a whole: a rise in productivity of nearly 50% since 1948: a capital investment programme amounting to nearly £500 millions since the end of the war: an exceptionally successful export performance: and a reasonably contented labour force which, to judge by the 1955 voting figures in large chemical towns, has no overwhelming desire to be nationalised. It is true that for inevitable reasons of scale some heavy chemical products are monopolised; but even to the extent that this matters much in an industry with an immensely high rate of development of new products and substitutes, it can be dealt with, if desired, by public regulation; and in any case, taking the industry as a whole, I.C.I. has several strong competitors. It is also true that some of the arguments used against nationalisation by the industry's spokesmen (e.g. the likely interference with foreign subsidiaries) are exceedingly weak. Nevertheless, we shall not convince a reasonable-minded electorate that there is an unanswerable *economic* case for nationalising either I.C.I. in particular, or the whole industry. If we decide to do so, we must admit that there will be little or no economic gain (indeed a possible loss, if top and middle salary levels have to be reduced under political or Trade Union pressure), and justify the action on some wider social grounds.

The motor industry is distinctly more vulnerable to criticism. It has not always stood up to German competition in export markets; and it has often tried to sell too much at home, and too little abroad. (Its defence of its own achievements, moreover, is usually an appalling mixture of complacency and obscurantist economics.) Yet it has not done too badly. Its exports are many times the pre-war rate (cars 6 times, commercial vehicles 10 times); and its productivity shows a reasonable rate of increase. Furthermore its weaknesses are not those which nationalisation might be expected to cure. They often lie in the sphere of design,

sales, and marketing rather than manufacture; and after recent amalgamations, the structural units do not appear to be of much less than optimum size. Indeed the main thing wrong with the industry – an excessive attention to an inflated home market – could be easily cured by the Government without nationalisation, simply by reducing excess demand and hence increasing the degree of competition.<sup>1</sup>

The aircraft industry, although it has had some notable failures, has also scored some brilliant successes; and it is now generally recognised (although it was once highly unpopular to say so) that nationalisation is not the right answer to its problems. 'Centralised control might well damp down the rate of development. . . . There is no evidence that increased technical efficiency would necessarily follow from State ownership. It did not follow in the case of the French industry, nor when the State took over the majority of shares in Short Brothers. Among the private British firms the least efficient are those which most depend upon State contracts. . . . There is no strong pressure from the workers for nationalisation. . . . On balance the disadvantages of complete national ownership outweigh the advantages.'<sup>2</sup>

The economic arguments do not, then, give the same clear answer when applied to the next group of industries as they did when applied to coal and railways. And this is not due solely to the specific factors mentioned in the preceding paragraphs, but also to the more general fact that British industry, working under conditions of full employment and in a healthier social climate, is significantly more efficient, competitive and expansionist than it was before the war. The Labour Government can take some credit for this; but it inevitably weakens the case for further major structural changes.

#### IV *The Criteria and Conditions for Successful Nationalisation*

The diminished importance of nationalisation on economic grounds is only one aspect of the diminished importance, analysed in Chapter III, of industrial ownership for social relations as

<sup>1</sup> Since these words were originally written, the cure has begun to be rather brutally applied.

<sup>2</sup> Frank Beswick, *Plan for the Aircraft Industry* (Fabian Society, 1955), p. 18.

a whole. Socialism, whether viewed in social or ethical or economic terms, will not be brought much nearer by nationalising the aircraft industry. A higher working-class standard of living, more effective joint consultation, better labour relations, a proper use of economic resources, a wider diffusion of power, a greater degree of co-operation, or more social and economic equality – none of these now primarily require a large-scale change in ownership for their fulfilment; still less is such a change a *sufficient* condition of their fulfilment.

The gradual (though still often sub-conscious) realisation of this truth<sup>1</sup> has brought a reaction against making state monopoly the central feature of Labour policy. This reaction is stronger than can be explained simply in terms of lazy satiation after so large a meal, or of an intellectual void now that those industries which were preached and studied and perorated about during half a century of opposition are safely in the public sector. It is obvious enough at the level of public opinion, as every Labour candidate knows; and it is also obvious amongst the workers both in some nationalised industries (notably the railways), and in certain industries (notably chemicals) which appear to be threatened.

But it is evident in the official Labour Movement itself – in the Co-operative Movement,<sup>2</sup> in the T.U.C.,<sup>3</sup> and even in the Labour Party, as shown not only by the regular rejection of sweeping nationalisation proposals at Annual Conference, but also by the ambivalence of its election programmes – one list of candidates in 1950, none at all in 1951, and a different list again in 1955.

Nor are the doubts confined to the 'Right-wing' of the Party. They were most trenchantly expressed in *Keeping Left*, a statement by 12 Members of Parliament normally thought to be rather 'Left-wing'.<sup>4</sup> 'Most early socialists thought that the job

<sup>1</sup> Or rather of most of this truth. The exception is the still widespread belief, which is discussed fully in the next chapter, that nationalisation is essential to the diminution of property-incomes, and hence to equality.

<sup>2</sup> *v. Social Ownership*. 'There is a tendency for people at both the red and blue ends of the political spectrum to think that to advocate more and more nationalisation is to advocate more and more socialism. "Nationalisation" may be only a convenient slogan to avoid the necessity for new thinking.' (p. 22.)

<sup>3</sup> *v. Public Ownership: an Interim Report* (1953).

<sup>4</sup> *New Statesman* pamphlet, 1950. Among the authors were Mr. Crossman, Mr. Mikardo, Mrs. Castle, Sir Richard Acland, Mr. Wigg, Mr. Harold Davies, Mr. Hale, and Mr. Stephen Swingle.

of changing the nature of society was exclusively a matter of changing the proprietors of industry. For them the ownership of the means of production, distribution, and exchange was the sole criterion of whether a community was a capitalist or a socialist one. They therefore identified socialism with public ownership, and believed that all the world's ills could be dispersed through the formula of nationalisation. In the last few years we have learned to distinguish the means of socialism from its ends, and the tools of social revolution from their uses. We are now less concerned about who owns a factory. . . . It was right in the first period of Labour's power to transfer the basic industries and services in one sweep to national ownership. . . . But the next steps are not so obvious or so simple. We are approaching the end . . . of the "natural monopolies"; and we can therefore move beyond the technique of nationalising whole industries one at a time by one Act at a time. . . . We cannot disguise the fact that the public corporations have not, so far, provided everything which socialists expected from nationalised industries.'

All this is perhaps a little harshly stated. But it does reflect the contemporary mood in the Labour Movement, and the diminished role now allotted to nationalisation by most socialists. (*Keeping Left* contained no list of large industries to be taken over, and indeed barely mentioned a single industry by name; out of 114 lines of 'Conclusions', the whole subject of nationalisation was only given 5.)

In this new situation, probably most thoughtful socialists would agree on two points. First, any nationalisation proposals must be capable, given the present climate of public opinion, of being justified to the electorate as likely to lead to an economic improvement. The approach must therefore be precise and selective, concentrating not on the next industries in order of size, or on those which happen to be in the public eye, but on those where a genuine economic case can be made out. Secondly, in the light of the evident disadvantages, outside the public utility field, of state monopoly and enormous scale, the method should be to take over not whole industries, but individual firms, leaving others still in private hands: or to set up new government-owned plants to compete with existing private firms. This is the 'competitive public enterprise' approach. It need not rule out

## THE ECONOMICS OF NATIONALISATION

occasionally nationalising whole industries where the arguments for doing so seem overwhelming; but it should have a preference wherever possible.

An economic improvement may follow from public ownership where the existing industry is clearly performing poorly: where competition either cannot or is not permitted to enforce an improvement: where physical or fiscal controls are incapable of curing the situation: and where public ownership will not bring attendant disadvantages of its own.

The first three conditions may be fulfilled where an industry is clearly failing to expand in line with national requirements. The steel industry, for example, consistently underrates the expansion in its capacity required to accommodate the sustained rise in metal-using output; and the consequence is recurrent periods of strain on the balance of payments as marginal supplies have to be imported (often for dollars, and at a heavy cost), and steel exports cut back below their potential level.<sup>1</sup> This constant lag in British steel capacity (which appears to be rooted in the psychology of the British industry, since it does not occur in Germany, the U.S., or Russia) is not automatically corrected by the market mechanism. Nor is it easily curable by government controls, which are naturally more effective in preventing than encouraging particular lines of conduct; one cannot compel businessmen to spend large sums of their own capital if they do not wish to. There is here an overwhelming argument for public ownership.

There may be other industries where sufficient expansion fails to occur under the influence of market pressures. Industrial investment has been constantly held back since the end of the war (and the balance of payments again worsened by the consequent need for imports) by the slow rate of expansion of the machine-tool industry, which is plunged into immensely long delivery-dates each time a minor spurt in investment occurs. There is surely an argument for some public ownership here to hurry things along. Outside the industrial sphere, the 'municipalisation' of blocks of private rented property is justified by the fact that landlords are unwilling at current controlled rents to spend the necessary sums on repairs and improvements: that governments are reluctant, for social reasons, to allow rents to

<sup>1</sup> For a detailed discussion of this point, cf. my *Britain's Economic Problem*, pp. 106-10.



rise to the point where they might be so willing: and that in consequence a glaring social inequality is emerging between those who live in new houses and those who live in old.<sup>1</sup>

The most successful example in practice of state action in a sphere in which the risks were too heavy for private enterprise is of course atomic energy. This has been a spectacular instance of public initiative, efficiency, and risk-taking. (Though the display of these qualities has probably been aided by the secrecy surrounding atomic development, and the consequent immunity from Parliamentary questions and Press campaigns).

A slightly oblique case is that of the insurance companies. Chapter XX made the point that these and other financial institutions must now logically fill the role of the erstwhile rich investor, and become a source of risk-capital to a greater extent than they have yet been willing. This consideration, allied to the fact that a great deal of wasteful overlapping between the companies is known to occur, should encourage the Labour Party to re-examine the question of public ownership. The Party has hovered for a long time on this issue, nervous of the Co-operative Movement on one side and the agents on the other; and *Challenge to Britain* contained merely a deliberate circumlocution. But if 'bold socialist measures' are being called for, industrial assurance would be a much more useful subject than the motor or ship-building industries.

There may also still be a few cases where public ownership is the simplest answer to the problem of monopoly. This will rarely be the case with Trade Association cartels, which are much better simply broken up, but might occasionally be the case with a single-firm monopoly. The Monopolies Commission found, for example, that the British Match Corporation had a complete and integrated monopoly of match production, which operated against the public interest.<sup>2</sup> But since the B.M.C. already owned ample capacity, and match-making appears to be a 'natural' monopoly in almost every country, it seemed pointless either to encourage or create a new competing company; while to have split the B.M.C. itself up into independent

<sup>1</sup> Though there are also other reasons for wanting municipalisation of rented property (r. Fabian research pamphlets on this subject by D. L. Munby, James MacColl, M.P., and David Eversley).

<sup>2</sup> *Report on the Supply and Export of Matches and the Supply of Match Making Machinery*, H.M.S.O., 1953.

competing concerns would have involved the sacrifice of important advantages of scale. The majority and minority reports therefore recommended respectively government price-control and a government wholesaling agency. But neither seemed happy with its recommendations; and nationalisation might have been a simpler solution. A few such cases may occur; though normally the problem of monopoly can be dealt with quite well by government controls – if only the will is there, which it has not always been in the past.

So far as efficiency is concerned, it will already be clear that no general statements about public versus private ownership can ever be justified. Examples have been quoted of efficient private industries; they could equally be quoted of efficient nationalised industries – e.g. the civil air corporations, the trunk fleet of British Road Services, or the electricity industry (except for its pricing policies).

On the other hand some public industries have done less well; not many people are satisfied with the performance of the railways, and the Fleck Committee found much to criticize in the management structure of the coal industry. But there are also plenty of less efficient private industries. The following, for example, have all been the subject of adverse official reports since the end of the war: food marketing,<sup>1</sup> machine-tools,<sup>2</sup> textile machinery,<sup>3</sup> building materials,<sup>4</sup> and building;<sup>5</sup> and many people would have other candidates for the list (including some non-industrial activities, such as distribution and farming).

Efficiency has little to do with ownership because in the modern corporation ownership has little to do with control. Thus a change of ownership, by itself, makes little difference. The steel industry in recent years has undergone the most kaleidoscopic changes: first private ownership, then the Iron and Steel Corporation, later an anomalous period of ownership by the

<sup>1</sup> v. *Report of the Committee appointed to review the Working of the Agricultural Marketing Acts* (the Lucas Report), H.M.S.O., 1947. This advocated the creation of a series of State Commodity Commissions.

<sup>2</sup> v. Anglo-American Council on Productivity, *Report on Machine Tools* (January 1953).

<sup>3</sup> v. *Report of the Committee of Investigation into the Cotton Textile Machinery Industry*, H.M.S.O., 1947.

<sup>4</sup> v. *The Distribution of Building Materials and Components* (the Simon Report), H.M.S.O., 1948.

<sup>5</sup> v. the series of Girdwood Reports.

Realisation Agency, and now back to a (different) private ownership again. Yet management was hardly affected by all these changes in Whitehall; and output continued to rise (though never fast enough, since public ownership never had time to compel a better view of the long-term optimum capacity). Volkswagen, the most efficient unit in the German motor industry, has no legal owners at all, nor has had since 1945. Short Brothers, the aircraft firm, neither improved nor deteriorated significantly after it was taken over by the Government during the war.<sup>1</sup>

The basic fact is the large corporation, facing fundamentally similar problems and acting in fundamentally the same way whether publicly or privately owned. Its efficiency depends simply on the quality of its top management, and on whether the firm or industry is structurally well adapted from a technical point of view. There are, of course, exceptions – as when a dynamic and progressive top management (or an all-important research team) has a strongly marked private-enterprise outlook, and is very allergic to Whitehall; or where the whole enterprise revolves round a refractory individual genius like Frank Whittle; or, in the opposite case, where the workers would simply refuse to co-operate with private owners (as they would in coal). But with these exceptions, ownership as such makes little difference; and a transfer to public ownership will improve efficiency only if either (1) the Government puts in a better management, or compels the existing management to take greater long-term risks, or (2) it is able to adapt the structure of the industry (e.g. by amalgamations) in a manner obviously required by productive efficiency. Conversely, it will make things worse if it does the opposite.

In certain cases it might easily do the opposite. Thus the imposition of centralised monopoly control on an efficient competitive industry would certainly lead to a fall in efficiency. This danger is now well understood. But a further danger is not – that nationalisation might actually lower the calibre of management. This will occur if we continue to pay such stingy salaries in the

<sup>1</sup> Another example, taken from a generally small-scale industry, is building. Public operation by direct labour schemes for new housing in some cases shows lower costs than private builders, in others higher; the average for the country is about the same (*v. The Cost of House-Building: First Report of the Committee of Inquiry*, H.M.S.O., 1948, Paras. 195-8). Everything depends on the relative competence of the particular local government officers and private contractors; and this shows wide variations.

public sector. We have heard too much objection to the allegedly high, but in fact relatively low, level of salaries in nationalised industry; we can begin to worry about these when we have removed many far more glaring (and socially unjustified) sources of inequality. As it is, we simply place nationalised concerns under a hopeless handicap in competing with private enterprise.

The second condition is that we give the industry a more efficient structure than it had before. There are certainly cases where this is in theory possible – cases, that is, where larger scale would be a positive advantage: where the average existing scale is too small for maximum technical efficiency: where there are too many small, non-specialised firms each producing a wide range of output, and consequently gaining no advantages of scale: and where competition is too imperfect to compel a greater concentration.<sup>1</sup> In such cases, the public acquisition and subsequent amalgamation of a number of separate firms might greatly improve the structural fitness of the industry.

I have no intention of drawing up a detailed list of industries where such improvements might occur, having always thought this a task for industrial experts rather than for laymen. But one interesting *prima facie* case may be quoted – the machine-tool industry, already mentioned in another context. All the recommendations of the Anglo-American Productivity Report on this industry appear to point to the need for public intervention on the lines suggested – standardisation within and between companies, specialisation between companies, and a considerable reduction in the number of companies by absorption or amalgamation. The Report remarks that ‘an efficient monopoly is of far more worth to a country than an inefficient highly competitive industry’, and points out that in Russia and Germany a dictator, and in the U.S. the pressure of a few large users, were needed to impose standardisation on the machine-tool industries of those countries. This sounds like a remarkable justification for state intervention in a case where a competitive industry fails to adapt itself to an obviously more efficient structure.

<sup>1</sup> Long-distance road haulage was such an example. Even the *Economist* now speaks of ‘the efficient and profitable trunk network that BRS made out of the patchwork of haulage businesses it took over. The advantage of one such organisation covering most of the country was slow to emerge but it has [now] been proven by experience.’ (9 July 1955.) But of course BRS has no monopoly of long-distance traffic – indeed it is now an example of competitive public enterprise.

At any rate, whatever industries are chosen, we should now have a definite preference for the 'competitive public enterprise' approach;<sup>1</sup> although there will occasionally be cases (such as steel) where state monopoly still provides the right answer. There are, it is true, some difficulties about the form of competitive public enterprise which is usually envisaged. But I leave a detailed discussion of the appropriate forms until after a consideration of the one remaining popular argument for rapid and large-scale nationalisation.

<sup>1</sup> Which is in any case a good Fabian concept. Shaw wrote in Fabian Tract No. 2, in 1884, that 'since Competition among producers admittedly secures to the public the most satisfactory products, the State should compete with all its might in every department of production'. This is the Tract which also contains his acid phrase about 'the division of society into hostile classes, with large appetites and no dinners at one extreme, and large dinners and no appetites at the other'.

## XXIII

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### THE FORMS OF PUBLIC OWNERSHIP

#### 1 *Nationalisation and Equality*

THIS last argument is in terms of the distribution of wealth, and is thus a reversion to the oldest (even pre-Marxist) argument for public ownership, namely as a means of appropriating the property income of the capitalist. Given that we pay full compensation, it relies on (a) the difference between the yields on gilt-edged and equities, (b) the fact that nationalisation precludes rising dividends and share values, and (c) occasionally, the lower level of salaries in the public sector.

'We [nationalise]', writes Mr. Strachey, 'in order to extinguish the great *unearned incomes* which are to-day derived, not from anything that those who draw them do, but from what they own. . . . The real purpose of socialization is to secure the proper distribution of the net national product among those who create it.'<sup>1</sup> On this view it is more or less irrelevant in what order industries are taken over. The approach is wholly *a priori*. We can dispense with detailed study of the structure, the performance, or the suitability for nationalisation of different industries, and concern ourselves solely with 'the pursuit of certain social and economic objectives, specific in the sense of being quite sharply definable but general in the sense of being quite external to any industry or service which it is proposed should change hands'.<sup>2</sup>

It would probably be conceded that nationalisation had not so far made much difference to equality. Some £2,100 millions

<sup>1</sup> 'The Objects of Further Socialization', *Political Quarterly*, January-March 1953.

<sup>2</sup> Jenkins, *Pursuit of Progress*, p. 101. I must confess at once that I at one time supported this approach (*Socialist Commentary*, February 1950).

of compensation stock was issued in respect of the industries nationalised from 1945 to 1951; it carried an average rate of interest of just over 3%, compared with a yield on ordinary shares during the critical years of  $4\frac{1}{2}\%$ . The incomes of the erst-while owners thus dropped from some £95 millions to £63 millions per annum; allowing for taxation, the transfer of net income must have amounted to under £20 millions per annum. Even allowing for new borrowing at a cheaper rate, the whole transfer must have been rather small as a proportion of total personal incomes amounting (in 1951) to well over £12,000 millions per annum – certainly infinitesimal as compared with the effects of high taxation.

Nor was there much of a transfer in respect of new savings or capital gains. Once nationalised, the industries were forbidden to make large profits, and had instead (with one or two exceptions) to cover their capital programmes by borrowing from private investors in the open market. And the previous owners can hardly have forgone large gains. In the case of gas and electricity prices were already subject to regulation (and the owners were largely local authorities), in the case of the railways (which accounted for almost half the total compensation stock issued) the owners probably missed making capital losses rather than gains, and only briefly in steel (as the behaviour of steel shares since denationalisation shows) did they forgo any considerable capital profits.

However, it can quite well be argued that the experience of the 1945-51 industries is no guide to what might occur in future, at least in respect of capital profits – the income aspect would probably never be other than negligible.<sup>1</sup> The next group of industries, if we were to go by size (that is, the chemical, metal, and engineering industries), are distinctly more profitable than those already taken over; and with full employment and rapid growth the annual increase in the value of industrial capital will be larger than in the past. Under these circumstances private capital gains might well, over a period, be very considerable;<sup>2</sup> and the only effective method of preventing them, it is said, is by public ownership.

<sup>1</sup> Mr. Strachey's 'great unearned incomes' (that is, dividends on ordinary shares) are, after taxation, only some 3% of total net personal income.

<sup>2</sup> *v.* Chapter XV, Section IV.

Now the problem is not in question; indeed it has taken up a large part of three previous chapters.<sup>1</sup> But the discussion in those chapters showed that it was perfectly possible, even in a rapidly-growing economy, to limit the net rewards to shareholders by methods other than nationalisation (notably by a capital gains tax, and a system of corporate taxation designed to hold down distributions). And the experience of Norway and Sweden, much more egalitarian countries than our own, also proves that wholesale nationalisation is not a necessary condition of greater equality.

Why then should it be preferred to these other methods? Let us consider the implications of asserting such a preference. If it is meant seriously as a method of redistributing wealth, and not merely as a sop to the Party militants, nationalisation must first be fairly rapid, and secondly concentrate on the most prosperous industries where the largest capital gains are made. The first condition requires a return to the policy of taking over entire industries at a time, since only thus should we make any impression on property distribution within a measurable period. The second requires that the industries taken over shall be the largest and most efficient, showing the highest rates of increase of productivity and the fastest rates of expansion.<sup>2</sup> It follows that we must refurbish the 'list' approach discussed in the previous chapter; and each Labour programme must contain its quota of future state monopolies, chosen by no economic criteria (except that of profitability), but simply in order of size. So much is implicit in the view that the objectives of nationalisation are 'external to the industry which it is proposed should change hands'.

I believe that such a policy is both wrong and impracticable. It is impracticable for the obvious reason that the electorate, already suspicious, as the 1955 election showed, of proposals for nationalising efficient industries where no convincing case could be made out on economic grounds, would be rather intolerant towards it. And it is wrong because there is no guarantee that productive efficiency will not suffer. The obvious candidates

<sup>1</sup> i. Chapters XV, XVII, and XX.

<sup>2</sup> Although this would mean that another egalitarian advantage sometimes mentioned, namely the disappearance of nepotism, would not be achieved. It is not in large joint-stock concerns such as these that nepotism flourishes, but in small family businesses (and in the City).



as judged by this approach (chemicals, aircraft, vehicles, ship-building, etc.) are, as the last chapter showed, performing tolerably well. They are mostly competitive industries, heavily engaged in the export market, enjoying reasonable labour relations, structurally well organised, and expansionist in outlook. They are not obviously suitable for wholesale nationalisation; and in the light of the unsolved problems in the existing public sector, the tendency towards centralisation, and the query still overhanging the level of managerial salaries, it is at least conceivable that their performance would deteriorate if they were to be taken rapidly into public ownership. None of this would matter quite so much if we had no balance of payments problem, and no urgent need for higher output. But in fact we have both; and since these are precisely the industries on which our export performance primarily depends, and which are currently responsible for the greater part of the annual rise in output, it seems rather frivolous to propose that they should be nationalised on the scale, and at the speed, required to make a visible impact on income-distribution.

Competitive public enterprise, on the other hand, which was adopted by the Party precisely in order to avoid these difficulties, would have only a marginal effect on income-distribution. First, if we confine ourselves to single firms, and especially in the light of the practical difficulties of choosing and justifying the choice of firms – these are discussed below – progress would inevitably be slow as judged by the proportion of total industrial capital involved. Secondly, since proposals for competitive public enterprise are supposed to justify themselves on grounds of efficiency, it follows that they would apply mainly to those industries where the smallest, and not the largest, capital gains were being made. The two sets of criteria are thus in conflict; and it is inconsistent (though very common) to stress the egalitarian argument, and say that it ‘demands a much more vigorous and far-reaching nationalisation policy’,<sup>1</sup> and then to abjure the rapid creation of State monopolies and take refuge in the inevitably much slower policy of selecting individual firms. This would merely lead to general discontent when it was found that a deception had been practised, and that nothing whatever was happening to the division of incomes.

Naturally if we accept, as probably most people in the Party

<sup>1</sup> Jenkins, *op. cit.*, p. 104.

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now do,<sup>1</sup> that we cannot go bull-headed at nationalisation without regard to the economic consequences, this does not mean that we must passively endure a prodigious annual increase in private property values. It simply means that we must adopt instead the various alternative proposals discussed in previous chapters.

### II *Competitive Public Enterprise*

However, even though these proposals could, if adopted, quite well prevent the maldistribution of wealth from getting rapidly worse as a direct result of economic growth, yet some accretion to the real value of private property is likely as a result of growth; and any such accretion is to be deplored so long as private property remains distributed as it is to-day.

But the problem is then fundamentally one of the distribution of property: of how to redistribute existing property, both for its own sake and in order that future increases in its value may be more equally distributed, and how to ensure that new savings, and the capital which they create, are also better distributed than now. Clearly there are many other ways of doing this besides nationalisation; and in so far as nationalisation is one way, it need not take the form, in order to achieve this object, of the compulsory purchase of an entire unit of production, a firm or an industry. It is now the individual ownership, and not the productive unit, that we are concerned with: the title-deeds, and not the physical assets: simply ownership, and not control. Indeed it becomes, from this point of view, a tiresome and unnecessary nuisance to be saddled with control.

The other methods of redistributing property have already been discussed. It can be directly transferred to the State by death-duties, a tax on gifts, and a capital tax. The ratio of new public

<sup>1</sup> 'We advocate nationalization only for those industries where the immediate national need makes the case overwhelming. Increased production . . . must remain our main concern, and the extensions of public ownership which we propose are, therefore, limited to those which are essential to the fulfilment of this prime purpose.' (*Challenge to Britain*.) 'It [the balance of payments] must have priority. . . . We must, willy nilly, concentrate for the present largely on the productivity issue. . . . Projects of nationalisation and ambitious welfare plans should give place to insistence on abolishing large fortunes. . . . There will be no nationalisation for the sake of nationalisation.' (G. D. H. Cole, *New Statesman*, 21 November 1953.)

to private savings can be increased by Budget surpluses, heavy taxation of company profits, and allowing the existing nationalised industries to accumulate a surplus. The ratio of small to large property holdings can be increased by measures to encourage working-class savings, by inserting the 'legacy' principle into the death-duties, by effective profit-sharing schemes, and (indirectly) by the growth of pension and other eleemosynary funds. All these are alternatives to nationalisation, which need no longer be seen as the one and only large-scale method of redistributing the benefits of economic growth.

Even so far as nationalisation is concerned, any method by which the community (or the working class) acquires a capital stake in economic growth is equally efficacious; since the object is not to acquire control, we need not confine ourselves to the compulsory purchase of whole firms. However, since the previous chapter made out a case for sometimes doing this on economic grounds, I shall first consider how 'competitive public enterprise' might work in practice: and then turn to other methods of increasing the community's ownership of capital assets.

There would be no insuperable problems in running a competitive public unit, once it was chosen or set up. The main essential would be to establish at the start the right conditions for efficiency. The first is a competitive level of managerial salaries. The second, since the whole *raison d'être* of these companies is the need for greater entrepreneurial initiative than was previously being shown, is the maximum degree of freedom and independence in their day-to-day affairs. They should certainly not be subject to detailed Parliamentary control; and although they should consult the Minister on matters of importance, as the board of a private company might consult a dominant shareholder, and be subject to his directives on major points of policy, this must not extend to the point where decisions are normally taken in Whitehall. Suggestions for a special and active Control Board, or for constant meetings between the different State directors to concert a common policy, are quite inappropriate. State enterprises should be as free to develop as private enterprises. They must be able to use their profits for new investment, to negotiate wages and conditions in the ordinary way, and to decide their price and output policies subject only to any planning controls which apply to the whole of the industry; to these, of course, they will be more

than usually susceptible, and indeed a useful instrument for making them effective.

Naturally, since public money is involved, there must be some public accountability. But the degree of supervision (theoretically) exercised by Parliament over the Royal Ordnance Factories would be wholly excessive in this case; while Parliamentary time would not permit an annual debate on each concern such as now takes place on each nationalised industry. It has been suggested that a holding company might be set up, containing Members of Parliament and representatives of both sides of industry; it would hold the shares of all the companies, and employ experts where necessary to supervise or examine their activities, just as a finance house or the I.C.F.C. employs experts to watch over concerns to which they are heavily committed. A better suggestion is for a new Public Corporation, responsible for all the state companies, bearing the same relation to Parliament as the existing public boards, but acting otherwise as a rather passive holding company. At any rate, the bias must always be towards the maximum of independence, and the minimum of central interference.

Where a number of firms in the same industry are taken over, the case is different, and some co-ordinating body will clearly be required. Development Councils have not proved a great success; and a less cumbersome solution would again be a public holding company on the lines of the Iron and Steel Corporation, holding the shares in the public companies, and with strong powers of control over the private ones. But of course separate legislation will be needed whenever a number of firms in the same industry are nationalised together, and the whole balance of ownership changed; each such case can therefore be treated empirically, and if need be differently, as it comes along.

The next condition is that competition between public and private firms should be, and should be seen to be, scrupulously fair. There must be no favouritism in the allocation of contracts, raw materials or labour; comparative performance must be the sole test – if the public companies cannot compete on equal terms, they do not deserve to be set up. This also means that new capital should not be supplied on tap from the Treasury at gilt-edged rates, as it has been to some of the nationalised industries. Private firms must borrow from the market; the State concerns should borrow

from a public finance body (to be discussed later) which charges full market rates, and applies normal commercial conditions.

It will be seen how different are the proposed State companies from the existing R.O.Fs. The latter often made losses on their civilian output, which the State companies must not do. Their capital comes from departmental grants, which are indeed their only source of funds; it is subject to no proper charge, since the grants are on a petty-cash basis. They have no sales organisation; the Ministry of Supply both markets their output and takes the proceeds. Questions can be (although they seldom are) asked in the House of Commons; and the Public Accounts Committee and the Select Committee on Estimates have full powers of detailed investigation. Although there have recently been moves towards a somewhat greater autonomy, departmental control is still exceedingly strict – superintendents of factories cannot, for example, spend more than £250 on capital equipment on their own responsibility, nor have they any funds to spend on research. The new companies, on the other hand, would hold a position much more like that of Short Brothers. Although the Government has a controlling interest in the equity, the Ministry of Supply controls the appointment of directors, and the Under-Secretary of State is *ex officio* a director, yet the firm operates on a wholly commercial basis, enjoying no favouritism and subject to no more controls than the rest of the aircraft industry.

### III *The Difficulties; and Alternative Methods*

There seems to be no insoluble difficulty about running State companies in competition with private industry; indeed many such companies already exist, and operate successfully, in other countries (notably Sweden and France).<sup>1</sup> The real difficulty is a

<sup>1</sup> In Sweden the state companies include (besides the monopoly of tobacco manufacture and liquor import and distribution) a bank, a chain of restaurants, a large iron and steel works, saw and pulp mills, shale oil production, peat production, and bus services. In France the state owns many of the largest banks and insurance companies, the Renault Company, the S.N.E.C.M.A. (the largest aircraft firm), the Berliet factory, and numerous printing works; while there are more than 40 mixed enterprises, in which the State's participation ranges from 99% to 3%, in such diverse industries as film production, broadcasting, chemicals, news agency, oil distribution, and the merchant marine. (v. *Problems of Nationalized Industry*, ed. W. A. Robson, Allen and Unwin, 1952, pp. 245 seq.) Even the U.S. has its State company – the T.V.A. – which competes at many points with private enterprise, and most successfully.

different one, namely, how they are to be chosen and set up in the first place, and how the choice of this one rather than that should be justified. This difficulty has hardly arisen so far. In France, where most of the firms were taken over immediately after the war, the choice was usually justified by special wartime factors (e.g. a collaborationist owner). In Sweden (where almost all the companies have in fact been set up by Conservative governments), the choice was invariably dictated by considerations external to the industry – the need to raise government revenue, or social-moral reasons, or local unemployment. In the U.K. the acquisition of Short Brothers was justified by imperative wartime needs, and in the U.S.A. the establishment of T.V.A. on anti-depression grounds.

First, under what legislation are the companies to be set up or acquired? Where most of the firms in an industry are acquired, a separate Bill will no doubt be needed on each occasion. But where it is a case of acquiring (or establishing) a single concern, it would be most extravagant of Parliamentary time, and dampening to the spirit of enterprise, if a new Bill had to be introduced for each concern. Clearly some general enabling legislation is called for.

There are some, though not exact, precedents for this. The Royal Ordnance Factories are an example of undertakings which, although originally set up for the specific purpose of producing munitions, are nevertheless not limited either in their number or in their range of output.<sup>1</sup> Again, the New Towns Act was in a sense an enabling bill; although its purpose was specific, it made no restriction on the number of new corporations which might be established, but gave the Minister wide general powers: 'if the Minister is satisfied . . . that it is expedient in the national interest that any area of land should be developed as a new town by a corporation established under this Act, he may make an order designating that area as the site of the proposed new town'.<sup>2</sup> Or, again, the Monopolies Act, having established a Commission with far-ranging powers of investigation, then empowers the Government itself to lay Orders before Parliament instructing

<sup>1</sup> Indeed the Ministry of Supply Act, 1939, under which they now operate, gives powers far greater than would probably be needed: 'to buy or otherwise acquire, manufacture or otherwise produce, store and transport any articles required for the public service'. But of course this was an emergency measure, intended originally only to run for three years.

<sup>2</sup> The New Towns Act, 1936 [9 & 10 Geo. 6.c.68].

particular industries to do, or desist from doing, certain things.<sup>1</sup> This sets a precedent for giving the Government power, under a general Act which specifies neither any particular industry nor any particular criterion, to intervene in the affairs of an industry adversely reported on by an impartial commission. It would probably not be impossible to draft a State Companies Act, containing a broad definition of the public interest (such as that embodied in the Monopolies Act), and giving the Government powers, subject to an affirmative resolution in both Houses of Parliament or the recommendation of a new independent commission, to acquire existing or establish new industrial enterprises.

The real difficulty is not that of framing the legislation, but of choosing the companies to be acquired, and then justifying the choice to public opinion. The problem arises because the acquisition is compulsory and backed by legislation, and because it involves discrimination between individual firms in the same industry. This goes against our legislative tradition, as we saw from the experience of physical controls and raw material allocations, which even a Labour Government with a huge majority was unwilling to operate in a discriminatory manner as between individual firms. To say that we shall compulsorily nationalise one chemical firm rather than another, or this aircraft firm rather than that, will be attacked as unfair, arbitrary, and dictated by political and not economic motives.

The ideal approach, which would avoid both the element of compulsion and the charge of non-commercial motives, would be to establish a State investment-trust, provided with public funds but independent of the Government, with instructions simply to make a profit by buying, establishing, or selling productive concerns. It would act, in effect, like a take-over bidder, seeking out inefficient firms, assets that were wrongly or under-utilised, slothful managements, and opportunities for new production; indeed it would be a public version of a composite picture of Messrs. Drayton, Wolfson, Samuel, and Clore. Its choice of firms to acquire would be justified on clear commercial principles; and no question of compulsory, legislative discrimination would arise.

The same end could be partially achieved, and the difficulties

<sup>1</sup> Monopolies and Restrictive Practices (Inquiry and Control) Act, 1948 [11 & 12 Geo.6.c.66].

similarly avoided, if a government investment corporation were to be established along the lines proposed in Chapter XX. (This would also be the obvious body to provide new capital to any separate State companies which were set up.) It would have the object, not of itself engaging in production, nor even of exercising control, but of providing capital where this was not easily forthcoming from private sources; and its operations might well be, indeed almost automatically would be, slanted towards industries whose rate of expansion or level of efficiency appeared inadequate. It would often operate by providing capital to new groups or individuals wishing to venture into such industries; and in this way it would foster at least part-public competitive enterprise where this was most needed.

An alternative method, similarly non-compulsory and justified on commercial grounds, would be to encourage the horizontal expansion of existing non-governmental but socially-owned organisations. The existing nationalised industries, for example, surely offer distinct scope. They already own substantial productive capacity outside, though allied to, their own main lines of production: land, coke-ovens, brick-manufacturing capacity, by-product plant, hotels, locomotive and wagon manufacturing factories, etc.<sup>1</sup> Private firms of far smaller size are constantly seeking to extend their interests and diversify their output. In Sweden the State railways have acquired bus companies, and the State forestry undertaking pulp and saw mills, without the need for fresh legislation. The tendency in Britain has so far been either to 'hive off', or at any rate somewhat to neglect (like the Coal Board with its brick-making), operations that did not seem central; and this was understandable in the early and difficult days of re-organisation. But now that matters are more settled, there is a strong case for allowing the Nationalised Boards (though subject to firm guarantees about decentralisation) to expand horizontally, by purchasing or establishing subsidiary undertakings, in exactly the same way as any private firm can do.<sup>2</sup>

<sup>1</sup> The British Transport Commission, through its ownership of the former Tilling and S.M.T. groups and its part-shareholding in a number of B.E.T. subsidiaries (and of course through London Transport), already owns a significant part of the bus industry. But this is less deliberate policy than an accidental result of nationalisation stopped mid-way by a Conservative Government.

<sup>2</sup> Or, sometimes, vertically. The Milk Marketing Board has recently announced that it proposes to set up its own retail outlets (i.e. milk-bars) – a minor but admirable precedent!



There is no reason in logic why public industries alone should be debarred from the normal commercial right to expand and diversify.<sup>1</sup>

The Co-operative Movement provides another possible vehicle of advance. In Sweden the most spectacular examples of competitive social enterprise have come from the Co-operatives rather than from the Government. The British movement has perhaps been somewhat less venturesome. But it has large resources; and a more audacious attitude to risk-taking might produce a large increase in competitive social enterprise in many different spheres.<sup>2</sup> However, Co-operative commercial policy is now under examination by an independent Commission; and a clarification may have to await its report.

Even the Trade Unions, in certain other countries, indulge in competitive enterprise. In Sweden they own one of the most lavish and up-to-date hotels in Stockholm; and the building Unions are responsible for a significant proportion of new housing. In the U.S. also a number of Unions (notably the Garment Workers) have built new housing estates (mainly, though not solely, for their own members). The British building Unions have, it is true, a rather unhappy memory of experiments in co-operative production; but now that economic conditions are more favourable, and since the building industry is quite unsuitable for wholesale nationalisation, perhaps the time has come for a renewed experiment.

We sometimes forget that the local authorities were considerable commercial undertakings before they lost their gas and electricity enterprises. It seems a pity that they are not more willing to branch out into new spheres,<sup>3</sup> since there are some (services rather than manufacturing) which seem eminently suitable for local enterprise – e.g. district heating, underground garages, the retailing of domestic fuel appliances,<sup>4</sup> cinemas,

<sup>1</sup> But this would require a change in price policy, in any case justified on other grounds, to enable the Boards to build up substantial reserves. It would be very undesirable to insist that all such operations should be financed by Treasury loans.

<sup>2</sup> The Co-operative Insurance Society, almost the most efficient in the insurance business, is an excellent example of what can be done.

<sup>3</sup> Though it would need a Local Authorities Enabling Bill, of the sort that the Labour Party used regularly to press for before the war, if they were to do so on any scale.

<sup>4</sup> As proposed by Mr. Little in *The Price of Fuel* (p. 130).

laundries, restaurants, hotels,<sup>1</sup> etc., quite apart from the municipalisation of blocks of rented property. Any efficient expansion in these directions would be welcome, though it seems unlikely to occur on a lavish scale – the impetus once given by Joseph Chamberlain and the Webbs appears to have exhausted itself.

We also forget that the area of socially-owned land is gradually rising, not as a result of direct purchase by the central State, but through the decentralised activities of other public bodies – the Forestry Commission, the New Towns, the Crown Land Commissioners, the local authorities, the National Trust, agricultural co-operatives, and so on. This is an excellent example of how social ownership can grow without the attendant disadvantages of state monopoly.

All these other and more indirect types of social enterprise are ideally to be preferred to direct action by the State. They involve less danger of bureaucracy and Whitehall control; they avoid the accusation of arbitrary discrimination; and they can be justified on strict commercial grounds. There will often be cases, naturally, where direct State action is desirable – some suggestions were made in the last chapter; though even here the establishment of a new venture is always to be preferred to the compulsory acquisition of an existing one. But generally one should envisage competitive public enterprise at least as much in terms of these more variegated forms of social ownership, as of ownership by Whitehall.

#### IV *The Ultimate Objective*

The notion of competitive public enterprise implies a desire to control the use to which certain physical assets are put. But from the point of view of the distribution of property and new savings, the question of control is irrelevant. It is quite sufficient to own the shares; and it makes no difference how haphazardly these are scattered amongst different companies.

Public share-ownership can be fostered in a number of ways,

<sup>1</sup> It is curious that despite the low standard of much of our hotel accommodation and its physical inadequacy at the peak of the tourist season, we should have been so much more timid in this direction even than Franco Spain, where the Paradors are an excellent example of public enterprise.

most of them already discussed. A government investment corporation, acting as lender of last resort to the whole economy, would gradually build up a large portfolio of stock (as well as loans). If death-duties were increased, and payment accepted in kind, the Death-duty Commissioners proposed in Chapter XIV would steadily create a highly prosperous investment trust; their objective would be to maximise income and capital gains, and in so doing they would counter any danger that the state might land itself only with the crocks and liabilities. Nationalised insurance companies would give the community a wide stake in industry, and share in capital gains. And, lastly, there might be a case, as with the aircraft industry, where the State itself supplies public funds which help to augment the capital assets of that industry, for demanding a share of the equity in part-payment.<sup>1</sup>

But we want not only a larger stake in industry for the State, but also a wide diffusion of property amongst individuals. We should therefore welcome effective profit-sharing, and the indirect diffusion which goes with the growth of pension funds, workers' share banks, educational foundations, and charitable trusts. The objective is not wholly to destroy private ownership, but to alter its distribution.

The ideal (or at least my ideal) is a society in which ownership is thoroughly mixed-up – a society with a diverse, diffused, pluralist, and heterogeneous pattern of ownership, with the State, the nationalised industries, the Co-operatives, the Unions, Government financial institutions, pensions funds, foundations, and millions of private families all participating. Since this is still a long way off, we need heavy taxation to limit profits and dividends. And it may be an unpopular solution amongst the traditionalists of the Left, who still want (or will be made to want by *ad captandum* speeches) the steady creation of State monopolies.<sup>2</sup>

But it is too late to settle these matters now by evocations of the spirit of Keir Hardie. We no doubt want more nationalisation than we now have. But I at least do not want a steadily extending chain of State monopolies, believing this to be bad for liberty, and wholly irrelevant to socialism as defined in this book. State

<sup>1</sup> As suggested in Beswick, *op. cit.*

<sup>2</sup> Though it is interesting that the British Labour Party is almost the only important social-democratic party in the world in which a strong desire for wholesale nationalisation still exists.

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ownership of all industrial capital is not now a condition of creating a socialist society, establishing social equality, increasing social welfare, or eliminating class distinctions. What is unjust in our present arrangements is the distribution of private wealth; and that can as well be cured in a pluralist as in a wholly State-owned economy, with much better results for social contentment and the fragmentation of power.

## THE ROLE OF PLANNING

I *The Diminishing Area of Controversy*

THE immediate post-war, like the immediate pre-war, generation of socialists, though for different reasons, thought of planning as a central feature of socialism, indeed as constituting one of the most direct antitheses between socialism and capitalism. Before the 1930s, on the other hand, the word was scarcely mentioned, and the concept played an altogether minor role in the history of socialist thought.<sup>1</sup> To-day we can compromise – discuss it, certainly, but relegate it to a lower priority than it enjoyed a decade ago.

The reason for this demotion is partly that most people now recognise how little there is to be said on the subject in general terms – or at least in general terms that are not abstract to the point of futility. We have grown rather less assured than we used to be in the face both of our limited knowledge of how the economic system works, and of the number and heterogeneity of the variables to be taken into account. Most of what can usefully be said is *ad hoc* to specific situations rather than deducible from, or assimilable to, a generalised theory.

Secondly, in so far as the matter is still discussed in general terms, the vigour has rather gone out of the debate; for practical experience has gradually obliterated the two extreme positions. Most people have moved towards the centre; and the debate is no longer an *a priori* one, conducted in terms of fundamental first principles, but an empirical one, in terms of rather more or rather less in particular situations.

<sup>1</sup> v. Chapter IV, Section II.

Thus Right-wing views on planning have undergone a pronounced modification. On the academic level, few serious economists now believe that a free price-mechanism leads in practice to a maximisation of economic welfare.<sup>1</sup> Not only are the 'optimum conditions of production and exchange', which would theoretically maximise welfare, quite impossible of fulfilment in any highly industrialised economy, but the result would in any case only be 'optimum' in relation to a given distribution of income; and if people object, as socialists do, to the existing distribution, they could not consider welfare to be maximised even if these conditions were to be fulfilled.<sup>2</sup>

The business world has also lost much of its ideological attachment to *laissez-faire*, and certainly has no desire to go back to the 1930s. Much as it dislikes detailed controls and high taxation, it now concedes that the government has a clear responsibility to intervene to whatever extent is required to maintain full employment (and hence high profits). In many industries an even wider governmental responsibility is accepted. It is not thought curious that the state should concern itself with the capacity of the steel industry, or be asked to aid industries which find themselves in export difficulties – cotton textile employers, for example, think it a scandal that the government declines to accept full responsibility for the level of their output. Generally, as Chapter I has shown, private business now finds it quite natural that Whitehall should intervene in the economy to a degree which would have been thought outrageous a generation ago.

Indeed it constitutes a major victory for the Left, the significance of which is grossly underestimated by those with short memories, that the majority of Conservatives to-day would probably concede the right, indeed the duty, of the State to hold itself responsible for (1) the level of employment, (2) the protection of the foreign balance by methods other than deflation, (3) the level of investment and the rate of growth, (4) the maintenance of a welfare minimum, and (5) the conditions under which monopolies should be allowed to operate. This is a far cry from the obscurantism of the Tory Party twenty years ago.

<sup>1</sup> v. I. M. D. Little, *A Critique of Welfare Economics* (O.U.P., 1950), for a detailed statement of the argument.

<sup>2</sup> This point is still consistently ignored by journals such as the *Economist* (not to mention less elevated papers), where the 'efficiency' of Budgetary and other changes is always discussed without any regard to their distributive effects.

Lastly, no one of any standing now believes the once-popular Hayek thesis that any interference with the market mechanism must start us down the slippery slope that leads to totalitarianism.<sup>1</sup> This was an unpalatable enough view, in a British context, even when it was first advanced; it has been thoroughly discredited now that we have experienced a decade of varying degrees of government control, with no sign of a weakening of our democratic fibre.

Socialist views on planning have been similarly modified. The pre-war argument, based as it was on the combination of manifest inefficiency and glaring inequality displayed by the capitalism of the 1930s, has in any case lost much of its force in the expansionist full employment economy and the Welfare State of the 1950s. And the extreme post-war argument has also fallen rather out of fashion. This was based on a different set of considerations, relating primarily to the dollar shortage and the balance of payments, and the apparent need to allocate resources by detailed physical controls if social justice and external solvency were to be combined in a siege economy. The change in opinion is due partly to the easing of the world economic situation as the post-war crisis years gave way to more normal conditions, and in particular as the American economy came to bely the worst fears expressed about it just after the war: but mainly to a general disillusionment with the whole notion of trying to control short-term production decisions from Whitehall through a detailed budget of production.<sup>2</sup>

This necessarily involves an intricate complex of licensing, rationing, and allocation controls; and these were increasingly seen to have serious drawbacks. They deny the consumer a free choice of goods and suppliers. They are highly unpopular, as was clearly shown by the public reaction to derationing. They involve an excessive growth of bureaucracy, with its concomitant dangers of petty tyranny, graft, and corruption.

And they are often economically inefficient. Not only do the planners often make mistakes, so that bottlenecks are created because the production budgets are not internally consistent; but there are also in practice more inescapable weaknesses. Thus raw material allocations, being inevitably, for political reasons,

<sup>1</sup> v. F. A. Hayek, *The Road to Serfdom* (Routledge, 1944).

<sup>2</sup> For an excellent discussion of this point, v. Jenkins, *op. cit.*, Ch. V.

non-discriminatory and therefore based on past performance, simply perpetuate the *status quo*, discourage new entry, and protect the less efficient firms from the competition of the more efficient. Price and investment controls (even if the former lead to no deterioration in quality), since they tend to be more effective the simpler and more essential the goods, often create a situation in which wages and profits are higher in the less essential than in the more essential sectors of the economy; and resources are attracted in completely the wrong directions – from new housing to miscellaneous repair work, utility to non-utility textiles, and so on. Many controls, moreover, are impossible to operate effectively once supplies become plentiful; they can be too easily circumvented, and a 'grey' market develops (as happened at different times with commodities as various as steel and eggs). And in the end a detailed attempt to plan the output of different industries is bound to fail unless backed by direction of labour; and this no one was willing to countenance as a permanent measure.

There has thus been, on both sides, a declining tendency to take up extreme positions; and the issue of planning (as opposed to the objectives of planning) is not now one of the fundamental differences between Left and Right.<sup>1</sup> Naturally important differences of emphasis remain, productive of much political heat. But generally the issue now is not whether, but how much and for what purpose, to plan.

## II *Political Limitations on Effective Planning*

Most of what I want to say about planning has already been said in previous chapters. Its prime function is to ensure that the right quantities of resources are allocated to each of the main sectors of the economy, and that these quantities add up to a full employment but non-inflationary level of demand. I do not mean to imply that the government can precisely control what proportion of the national product will next year be devoted to exports, investment, consumption, and so on. But it can influence these proportions in broad terms; and in some cases, where it is itself

<sup>1</sup> Not that it ever really was, in the light of the detailed planning practised by the Nazi Government.



the consumer or the source of funds, it can determine them fairly exactly.

The main objectives of planning, as outlined in this book, are then a steadily rising level of investment, and a sufficient volume of savings and risk-capital to match it: a volume of home demand which does not pre-empt goods away from export: a situation in the labour market which does not give rise to a wage-price spiral: and an increase in the proportion of the national income devoted to social expenditure – all these to be achieved against a background of growing social equality. Of course none of these will occur automatically. They will require a variety of planning policies, already discussed under the separate heads: above all, a skilful and determined fiscal policy, as well as other subsidiary controls where necessary; for with a lazy fiscal policy, low taxation and little governmental planning, the tendency is always for personal consumption to absorb too high a proportion of resources relative to these other claims.

What stands in the way of successful planning to attain these objectives (and also those to be discussed in the next section)? People are sometimes very critical of the planning performance of post-war Labour Governments, and suggest that major changes in policy will be needed when we next come back to power. Certainly there were weaknesses in post-war planning; but it is important to decide exactly where they lay.

It is often said that the essential deficiency was the lack of statistical information: or that it lay in the number, or the economic sophistication, or the political outlook, of the government planning staff: or in the administrative machinery of planning (i.e. in the organisation of government departments): or in the actual controls or techniques available. And no doubt there were weaknesses in some or all of these respects; and useful improvements could be made in future.

Yet I doubt if any of these was, or will be in the future, the crucial limiting influence. Experience shows that those Ministers prepared to plan could do so effectively despite all these deficiencies; and those who were not, would still not even if all the deficiencies were cured. The vital lack, in nine cases out of ten, and of course far more typically under a Conservative than a Labour Government, is in will-power and determination – in the face of vested interests, pressure groups, indifference, electoral

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opinion, and back-bench revolts. That is, the failure was essentially a *political* one, which reflects the difficulty of planning in a democratic society. If socialists want bolder planning, they must simply choose bolder Ministers and – just as important – themselves accept a greater degree of self-restraint when the results of planning impinge unpleasantly, as they often will, on their constituents or their own pet spheres of interest.

We may take a pertinent illustration. The greatest threat to our post-war recovery was a shortage of coal. Let us suppose (to anticipate the discussion of the next section) that the Labour Government had decided to embark on a vigorous fuel and power plan. It would have found that the main obstacles were not a lack of statistics, or techniques, or good advice, but essentially political. The Minister concerned might have had to wage, and win, the following battles: (1) with Lord Citrine over the policy of the Central Electricity Authority; (2) with his own backbenchers (not to mention the electorate) over raising the price of coal; (3) with the miners themselves and their M.Ps. when he urged the Coal Board substantially to raise the level of managerial salaries; (4) with the Treasury over discriminatory tax-concessions for the installation of fuel-saving equipment; and (5) with the Trade Unions (other than the mineworkers), in order to prevent an increase in miners' wages from being nullified by a corresponding rise in all other wages.

Or, to take another example, if a Labour Government were to plan to reduce the use of steel in 'inessential' consumers' goods industries in order to release more for capital investment, its main problem would be not the question of techniques – whether to use steel allocation controls, or fiscal methods, or monetary policy, or hire-purchase restrictions: but how and whether to enforce its plan, when it began to create redundancy and short-time working, in the face of vigorous (and natural) protests from the workers, M.Ps., and Trade Unions most affected. Similarly, the real case against recent Conservative policy relates less to the use of non-physical rather than physical controls (though such a case can be made out), than to the successive political decisions first to encourage the expansion of the consumers' durable goods industries (by tax reductions and the removal of hire-purchase controls) and then, a year later, to reverse its policy and force them to contract.

The problems of planning are therefore essentially political, and arise fundamentally from our being a democracy. By all means let the experts advise us on detailed improvements in machinery, personnel, and the statistical services. But we make a mistake if we think that these are of primary concern. The techniques and the information, imperfect though they may be, are adequate to support a more determined and effective degree of planning than we have had in the past. What is wanted now is the political vigour and will-power, and a readiness to take unpopular decisions. This is why it is largely a waste of time to write in detail about the problems of economic planning – the time to do that will be when the willingness to plan has outrun the techniques. And this is also why it is sad that those on the Left most vocal in calling for more vigorous planning, are often those least willing to preach unpalatable economic truths to the rank-and-file of the Party.

### III *How Much Planning?*

But if we achieve the prime objective of successful planning, namely, to get the right distribution of resources between the main sectors of the economy within a framework of non-inflationary full employment, I doubt if we want too much detailed planning *within* each sector.<sup>1</sup> For reasons explained above, the post-war attempts at detailed planning of production and investment decisions were not a great success; and in any case, as is made clear elsewhere in this book, the traditional socialist case for such planning, based on an assumed divergence between production for profit and production for use, has much less application at present levels of material welfare.

The price-mechanism is now a reasonably satisfactory method of distributing the great bulk of consumer-goods and industrial capital-goods, given the total amount of resources available for consumption and industrial investment.<sup>2</sup> The consumer is the best judge of how to spend his money; and even if he were not,

<sup>1</sup> The condition of non-inflationary full employment is of course vital. If we have excess demand, all manner of detailed controls may become necessary which otherwise are better avoided.

<sup>2</sup> I am ignoring here the non-controversial arguments for intervention relating to health and hygiene.

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the principle of individual liberty would still require that he should be left free to spend it, subject only to the social service considerations discussed in Chapter VII.<sup>1</sup> This does not mean that the distribution of goods *between* individuals will be ideal: on the contrary, it will not, for purchasing power is still too unequally distributed. But that inequality must be corrected directly by attacking the distribution of wealth; and at any given distribution, save in periods of exceptional crisis or acute shortage, people should now be left free to spend their incomes as they choose. Production for use and production for profit may be taken as broadly coinciding now that working-class purchasing power is so high. What is profitable is what the consumer finds useful; and the firm and the consumer desire broadly the same allocation of resources. And while paternalists may dislike this allocation, wishing that less were spent on drink and pools and television sets, they must swallow their dislike in the interests of personal freedom.

Nevertheless, there will be cases where the government wishes to intervene to override the market allocation of resources within the total allotted to a particular sector: that is, where it decrees that there shall be less of this consumption-good and more of that, or (more commonly) less investment in this direction and more in that. One cannot list such cases by reference to general *a priori* principles. The only sensible approach is a strictly empirical one, which concedes on the one hand that the price-mechanism does not work in so marvellous a welfare-maximising way that we shall jeopardise some optimum conditions, or risk upsetting a delicate mechanism, by intervening: but that on the other hand it does work in a general way to produce those goods which the consumer or investor wants, so that intervention must be justified by evidence either that what is being produced is obviously against the public interest, or that the producer is not correctly interpreting the future course of demand.

Socialists often rely on the latter argument, maintaining that industrial investment should be planned from Whitehall (i.e. its distribution between industries determined) on the grounds that the government planners have better information, or a wider

<sup>1</sup> These might be held, for example, to justify a subsidy on milk, or rent control, or the deliberate cheapening of certain goods to old-age pensioners or national assistance beneficiaries.

insight, about future demand than a private industry can have. Thus many socialists recently, to take an example, would have liked the government to override the motor industry's current ambitious investment plans, thinking these to be too optimistic, and their own judgment likely to be sounder.

Now the planners, if not the politicians, may certainly be expected to have a better idea than private industry of the rate of growth of the economy as a whole. It follows that in the case of commodities for which demand varies directly with incomes and output – commodities, that is, subject to little cross-elasticity of demand or possibility of substitution (e.g. fuel as a whole, or transport, or steel) – the Government will normally be able to take a sounder view.

But where future demand does not vary directly with output, and possibilities exist of substitution, a change in consumers' tastes, or export fluctuations, the matter is not so clear. First, in industries subject to the full vagaries of shifting consumer and export preferences, there is no particular reason why the Government's view should be better than that of the industry concerned. We may take the motor industry's expansion plans as an example. The future demand for cars is highly unpredictable. Projections of export demand are simply a matter of hunch, although dressed up in elaborate statistics; they must, in particular, be based on wild guesses about consumers' scales of preference at the margin at different levels of income, and in widely diverse countries. The behaviour even of home demand is uncertain – both the U.S. Government and automobile manufacturers, though with far more market-research resources than are usually available in England, underestimated the post-war American demand for cars by a matter of millions annually. It is not clear why Ministers or politicians, or even a handful of Whitehall planners working only part-time on this particular question, should do better in so uncertain a field than the full-time staffs, in constant contact with their representatives abroad, of the large motor manufacturers.<sup>1</sup> The latter may, of course, prove to be wrong in their

<sup>1</sup> It is sometimes said that while the manufacturers' investment plans might be justified individually on the assumption that the other firms did not also propose to expand, they cannot be justified when taken together, the assumption being that each firm acts in ignorance of what the others are doing. But it seems rather naïve to suppose that Sir Patrick Hennessy has no idea of Sir Leonard Lord's expansion plans! He has only to read the *Financial Times*, apart from anything else, to discover their broad outline.

present projections;<sup>1</sup> but there is no obvious reason why anybody else should be less wrong.

Secondly, even in relatively simple cases where the possibilities of substitution are restricted (road versus rail, or different kinds of fuel), and where therefore the central planners themselves may have a perfectly sound view of future demand, effective planning may still be frustrated either because Ministers, or other Departments, or nationalised industries, ignore this view: or because the Government fails to act on it for the political reasons mentioned in the previous section.

Such examples are plentiful. Whatever the central planners may have thought, the National Coal Board's estimate of future demand in *Plan for Coal*, besides being based on a number of highly vulnerable assumptions, concluded with a bracket of two figures, between which demand was expected to lie, which appeared to have only a tenuous link with the previous argument. The Ridley Committee two years later came out with a quite different set of estimates. And it quickly became clear that coal output would never even reach the lowest.

Despite these unreliable projections, the short-term objectives of fuel and power planning were reasonably clear. Yet the Government failed, largely for political reasons, to enforce these objectives by co-ordinating the plans of the different nationalised industries.<sup>2</sup> The various road plans, if they can be so designated, are an even more disturbing example. Not only are they founded on no long-term planned assessment of future demand and costs, but they are also simply a hotch-potch of unco-ordinated schemes given different orders of priority each time the government changes – consider the sad history of the Severn Bridge. Even the present rail plan, although it seems internally quite rational, is not based on any planned economic relationship between road and rail. And the government planning staff appear to have had no influence on either the rail or the road plan.

It follows that planning intervention on grounds of 'superior knowledge' will be justified only if two conditions are fulfilled. (1) The Government must have an obviously clearer view of future demand than private industry; there is no reason why this

<sup>1</sup> As I write this, there is in fact a recession in the motor industry – though one partly caused by government restrictions imposed after the expansion plans were announced. They could therefore hardly have been foreseen.

<sup>2</sup> v. Chapter XXII, Section II.

should normally be true of the great bulk of industries producing ultimately for a free consumer and export market. (2) Even where this condition is fulfilled (that is, in the case of basic commodities whose required growth is broadly related to total growth), we need the further condition that Ministers should in fact accept the view of the central planners, and enforce it (on other Government Departments and the nationalised industries as well as in Parliament) in the face of the political obstacles described in Section II.

But this second condition is much more relevant to the question of planning within the public sector, than to the question of extending planning further over the private sector; for the commodities or industries most obviously concerned – coal, gas, electricity, railways, and roads – are already fully under public ownership.

#### IV *The Proper Objectives of Planning*

The case for further intervention in the private sector is normally different. It arises first when the government is willing, but private enterprise is not, to shoulder the risks of expansion: and secondly where divergences arise between private and social cost.

On the first point, there are certain industries which require an exceptionally large amount of capital (and managerial skill) per unit of output; and these are normally the basic industries, whose expansion is a prior condition of expansion in the rest of the economy. This high ratio of fixed capital to output means first that they find it difficult to expand production quickly to meet a sudden rise in demand: and secondly that the risks of long-term expansion, owing to the heavy cost of excess capacity, appear particularly heavy. Thus a fully integrated steel plant costs about 600 times as much to build as a medium-sized factory; and overheads cannot be covered unless the plant is continuously operated at very near full capacity. Businessmen will then want an unusually high degree of assurance about future demand before embarking on large new capital schemes; and they may tend, as the British steel masters have done, to be too cautious, and always lag one step behind the rise in demand. It pays them better to make mistakes in this direction; and the

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result is a constant tendency to insufficient capacity – even though government and industry may privately agree in their respective projections of future demand.

The importance to the economy of such cases is sometimes overwhelming; and it must be a government responsibility to ensure, where necessary by nationalisation, that the industrial base, characteristically composed of industries such as these, expands fast enough to support the expected rise in total output. But intervention need not be confined to the basic industries. The government should stand ready, by the use of subsidies, guarantees, bulk purchases, or any other method, to shoulder part or all of the risk in any case where it is clear that expansion is required, but where private capital will not venture alone to undertake it. Since the end of the war, the production of aircraft, films, sulphur, hydraulic presses, and titanium have all been encouraged in this way; and this reserve, selective power to foster particularly essential expansion is the most useful aspect of detailed economic planning.

The other group of cases where intervention is often desirable is where private and social costs diverge – where, that is, the costs borne by, or gains accruing to, the community from a particular line of action are not fully reflected in the balance-sheet of the private (or nationalised) unit. This is the oldest of the economist's justifications for state intervention.

An obvious example of this divergence is the location of new factories. When a firm leaves one area and migrates to another, it involves the community in all sorts of costs and gains – in the one area, perhaps unemployment, or an unbalanced labour force, or wasted capital capacity (in social capital or public utilities): in the other, perhaps acute labour scarcity, traffic congestion, urban sprawl, and so on. There is a clear case here for vigorous planning – indeed without it in the immediate post-war years we might well have had serious unemployment in the Development Areas; and the lack of it now is helping to ensure that traffic in London and Birmingham gradually grinds to a standstill.<sup>1</sup>

Another case where private cost fails to reflect the national interest is where the anticipated profit from an 'essential' investment is quantitatively insignificant to the individual firm, and

<sup>1</sup> This links up with the question of 'social', or town and country, planning, which is discussed in the next chapter.



scarcely worth the bother; yet, taking the whole of industry together, the total result of such investments would be of major importance. This is the case, for example, with coal economy. Fuel costs are usually a very small fraction of total costs, and the reduction in costs and increase in net profits to be expected from installing fuel-saving equipment seem insignificant to the individual business; and the investment is not made. Yet if the whole of industry installed such equipment, the resultant saving of coal would be of considerable significance to the national economy. Government intervention is fully justified in cases such as this.

Balance of payments factors may also cause private and social cost to diverge. The desirability or otherwise of particular categories or amounts of imports, exports or import-saving output may be affected by considerations of bilateral trade, or foreign policy, or colonial policy (as with synthetic rubber), or the prospect of holding a particular exchange-rate, or a scarcity of particular currencies. And, lastly, I say nothing of the traditional cases of 'social costs', such as smog, river pollution, and the like; these are now on the whole non-controversial.

It will be seen how little can be said in general terms. Occasionally the divergence between private and social cost will be so glaring that everyone agrees. Occasionally expansion is obviously called for, which the industry itself is unwilling to undertake. Occasionally the Government can take a clearer or more enlightened view than private industry.

This certainly does not add up to an argument for a detailed, overall government plan embracing every industry, least of all in an export-oriented economy like our own. Remaining severely empirical, the Government must simply stand ready first to intervene negatively to stop industry from acting manifestly against the public interest: secondly, and of far greater importance, to intervene positively to secure expansion – to search out the weak spots, especially in the basic industries, and concentrate on these with all the vigour at its command. If it fulfils this positive role of enlarging the industrial base – indeed if it achieves the central, overriding objective of getting sufficient coal and steel – the remaining 90% of the economy can increasingly be left to look after itself now that we are moving from a subsistence to an abundant society.

But the whole question of the distribution of output *within* the

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main components of demand – consumption, industrial investment, government expenditure, and so on – is of infinitely less significance than the question discussed in Section II: of how to allocate the right *totals* to each of these components – how to ensure sufficiently high investment, exports, and social expenditure without inflation. That remains the essential role of planning; and only if we carry out that role successfully shall we extricate ourselves from the intolerable situation in which the economy lurches from one inflationary crisis to another, each met by haphazard and damaging panic measures. But better planning in this respect will not be much assisted, as was made clear earlier, by chapters, or even books, on planning. It mainly requires Ministers endowed with the inflexible will and resolution of a Stafford Cripps, and political parties ready to back them loyally both in Parliament and the constituencies.



## CONCLUSION



## XXV

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### CONCLUSION

#### I *Summary of Economic Proposals*

FOR all the attention given to them in the last few chapters, I no longer regard questions of growth and efficiency as being, on a long view, of primary importance to socialism. We stand, in Britain, on the threshold of mass abundance; and within a decade the average family will enjoy a standard of living which, whether or not it fully satisfies their aspirations, will certainly convince the reformer that he should turn his main attention elsewhere.

A Labour Government must, of course, still have an economic programme, if only to ensure that the rate of growth over the next decade is such as to justify these hopes. I have tried to outline in Part Five what this programme ought to be. It can be summed up in the following propositions.

First, fiscal policy. Planning for full employment and the avoidance of inflation should rely mainly on Budgetary rather than monetary controls; that is, supposing inflation to be, as it normally will, the most pressing danger, on a Budget surplus rather than on high rates of interest. This is to be preferred because it improves the ratio of public to private saving, encourages investment relative to consumption, and distributes consumption more equitably amongst different social classes.

Secondly, the public sector of industry should be emboldened to build up larger surpluses, and borrow less from the private

capital market, in order both to increase total savings and to improve the ratio of public to private property.

Thirdly, the growth of small and medium personal savings should be actively encouraged by the exemption of a limited amount of saved income from tax, and by a government-sponsored spread of superannuation saving.

Fourthly, private industry, while it must be encouraged to earn high profits as a surplus for capital accumulation, should be compelled by a combination of profits tax and investment allowance to limit the amounts distributed in dividends, so that economic growth is not reflected in a progressive enrichment of the shareholder.

Fifthly, if greater equality or high corporate taxation are found to jeopardise the supply of risk-capital, the Government must accept the role of purveyor of risk-capital on any scale required; and set up new institutions to exercise it.

Sixthly, to prevent a wage-price spiral the Government should, while eschewing a national wages policy, avoid an excess of demand in the labour market, restrain the rise in dividends and share-values by a strict taxation policy, and stand ready to use price-controls and subsidies as short-term emergency measures if a sudden rise in import prices creates a critical threat of price-inflation.

Seventhly, in the field of public ownership the essential priority is the re-nationalisation of iron and steel. A decision on further candidates will of course depend on detailed study and the conditions prevailing at the time; amongst industries and services to which special attention should be directed are industrial assurance, machine-tools, road transport, and rented housing. But the preference should now be less for state monopolies than for competing public companies: less for acquiring existing concerns than for creating new ones: and less for action by the State than for action by other public bodies such as the existing nationalised industries, the Co-operative Movement, and the local authorities. In any event, further nationalisation is now of less importance to the achievement of socialism owing to the declining significance of industrial ownership as a determinant of social and economic relations.

Lastly, in the field of detailed planning the emphasis should now be positive rather than negative: that is, on securing expansion,

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breaking bottlenecks, and encouraging vital investment, rather than on physical controls designed to restrict the day-to-day freedom of action of industry.

All this is quite apart from other policies, not mentioned in detail in this book but now non-controversial on the Left, such as determined action against restrictive practices, the encouragement of technological education, increased expenditure on scientific research, and so on.

This programme for economic growth of course remains important. Nevertheless from a socialist viewpoint it should increasingly be overshadowed by the 'social' policies outlined in Parts Three and Four; and we should not now judge a Labour Government's performance primarily by its record in the economic field. This may require a mental adjustment in many quarters on the Left. Traditionally, or at least since Marx, socialist thought has been dominated by the economic problems posed by capitalism: poverty, mass unemployment, squalor, instability, and even the possibility of the imminent collapse of the whole system. These were problems of the most severe and urgent character; and it was correct to argue that major economic changes must precede the execution of socialist policy in other fields.

But it is gradually ceasing to be correct to-day. Capitalism has been reformed almost out of recognition. Despite occasional minor recessions and balance of payments crises, full employment and at least a tolerable degree of stability are likely to be maintained. Automation can be expected steadily to solve any remaining problems of under-production. Looking ahead, our present rate of growth will give us a national output three times as high as now in 50 years<sup>1</sup> – an increase capable of sustaining not only a generous rise in home living standards, but also a level of investment in the under-developed areas fully as high as they can physically accommodate. The pre-war reasons for a largely economic orientation are therefore steadily losing their relevance; and we can increasingly divert our energies into more fruitful and idealistic channels, and to fulfilling earlier and more fundamental socialist aspirations.

<sup>1</sup> And nine times as high in 100 years.



## II *Summary of Proposals for More Welfare and Greater Equality*

These have been defined in this book primarily in terms of social welfare and social equality.

The ideal of social equality requires the first priority to be given to educational reform. The next Labour Government must have a clear, definite, and far-reaching policy for democratising entry into the public schools; and this it should implement without further dithering. At the same time it should both accept and propagate the principle of the comprehensive school; and to the extent that a free choice in the matter is restricted, allot a larger share of national resources to raising the qualitative standards in the secondary modern sector, and to weakening the prestige-distinction between different types of school. If socialism is taken to mean a 'classless society', this is the front on which the main attack should now be mounted.

Secondly, socialists must explicitly acknowledge the link between rising consumption and equality in 'felt' living standards; and they must govern in the belief that rationing, restraints, and fair shares of austerity are a less good route towards social equality than the wide and plentiful diffusion of consumer goods – not in order to foster the motive of personal gain, but to allow the working class at last to share the material ease and comforts which have for too long been the prerogative of a privileged few.

Thirdly, in order to redistribute property, a tax on gifts is imperatively required. This should be followed by a reform of the death duties designed to incorporate the 'legacy' principle, and by a stiffening of the rates on the larger estates. Provision should also be made for payment in kind into a fund of public property which, as it grows, and is managed with an eye to securing the maximum gain to the public purse, will steadily raise the proportion of total property owned by the community. A light annual capital tax should be considered as a possible supplementary measure.

Fourthly, in the sphere of income and capital gains there are two urgent measures, apart from a structure of corporate taxation designed to limit dividend distribution: a capital gains tax,

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and severe action against tax avoidance by the richer classes. Large increases in marginal taxation of earned incomes, on the other hand, are to be avoided.

Fifthly, industrial policy. The changes required to create a more social-democratic climate in public and private industry fall rather within the field of Trade Union action than of legislation, though government pressure can be a useful ally. These changes are a pronounced narrowing of the existing gap between staff and labour in the matter of non-wage privileges and emoluments: more effective consultation and worker-influence at the point of production: and the acceptance by the Unions of the goal of 'high-level' industrial democracy. This requires that the range of Trade Union interests should be extended well beyond the scope of traditional collective bargaining, and should embrace all major economic questions affecting an industry; the result would be a significant further transfer of industrial power.

Turning to the welfare objective, I have made no attempt to lay down exact priorities, since these must be determined mainly by the experts. Much the most important priority is for social expenditure as a whole – capital expenditure even more than current. A Labour Government should commit itself to a definite increase in the proportion of national resources devoted to social welfare. Within the total, the broad priorities which stand out are partly the familiar ones of the old, the sick, and those with large families: and partly the 'special cases', listed in Chapter VII, which have been badly neglected in recent years. One specific proposal is also important: for a new National Super-annuation Scheme to cover those parts of the population not covered by existing occupational schemes.

I laid great stress on the relation, a direct and intimate one, between social expenditure and social equality. The former can promote the latter in two ways: first, by removing the greater handicap which poorer families suffer as compared with richer during sickness, old age, and the period of heaviest family responsibility, and secondly by creating standards of public health, education, and housing which are comparable in scope and quality with the best available for private purchase.

The whole welfare field is one in which both active legislation and bold administration are to be looked for. The Ministers

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responsible for this field in a Labour Government can do as much as any of their colleagues to promote the fundamental socialist objectives – if the Party as a whole has the will.

### III *Left-Right Issues which are not Socialist-Capitalist Issues*

As these objectives also are gradually fulfilled, and society becomes more social-democratic with the passing of the old collective grievances and injustices (and perhaps as automation carries us towards the 30- or even 20-hour week), we shall turn our attention increasingly to other, and in the long run more important, spheres – of personal freedom, happiness, and cultural endeavour: the cultivation of leisure, beauty, grace, gaiety, excitement, and of all the proper pursuits, whether elevated, vulgar, or eccentric, which contribute to the varied fabric of a full private and family life.

There are, after all, not one, but two good reasons for being a reformer, and on the Left. The first is a belief in the benefits of socialism. But there are many changes in society which an idealistic reformer might wish to make, but which are not to be subsumed under any defensible definition of socialism. And one is also on the Left, and a supporter of the Labour Party, because as a matter of experience most of those advocating such changes are to be found on the Left, and those opposing them on the Right.

It would be amazing if every important issue of public concern could be embraced in a socialist-capitalist controversy, or within some definition of socialism. As I pointed out in Chapter V, socialist aspirations were first formulated over 100 years ago. Some remain urgently relevant, and have formed the substance of this book. Others have lost their relevance through being largely fulfilled. But of course new issues, not then foreseen, and increasingly important as the old evils are conquered, have arisen since; and they may be highly significant for welfare, freedom, and social justice, even though not assimilable into the old socialist-capitalist categories.

This may be seen by considering the case of either the United States or Soviet Russia. In the former country, a Leftist, who

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was a socialist in Britain, would be much less concerned to promote more social equality or material welfare, of which plenty exists already, than with reforms lying outside the field of socialist-capitalist controversy, yet still the subject of acute Left-Right dispute: civil liberties, or the Negro problem, or foreign policy, or crime, or the sociological problems of a mass society. Similarly in Russia, a Leftist, who was even the most old-fashioned socialist in Britain, would scarcely assume that no urgent problems remained simply because nationalisation and planning could go no further; on the contrary, he would concern himself with the promotion of values, notably the rights of personal freedom and dissent, which in Britain are not a matter of socialist-capitalist disagreement.

So in Britain, as we approach the socialist goals described above, the reformer will bend his energies more and more to issues which cannot be classified as specifically socialist or non-socialist, but which lie in other fields altogether.<sup>1</sup> There are two such fields in which social action is already called for: the freedom of personal and leisure life, and social responsibility for cultural values.

### IV *Liberty and Gaiety in Private Life; the Need for a Reaction against the Fabian Tradition*

Society's decisions impinge heavily on people's private lives as well as on their social or economic welfare; and they now impinge, in my view, in too restrictive and puritanical a manner. I should like to see action taken both to widen opportunities for enjoyment and relaxation, and to diminish existing restrictions on personal freedom.

The first of these requires, it is true, a change in cultural attitudes rather than government legislation. If this were to come about, much could be done to make Britain a more colourful and civilised country to live in. We need not only higher exports and old-age pensions, but more open-air cafés, brighter and gayer

<sup>1</sup> One example of such an issue, which many people already believe to be urgent, was quoted in Chapter I: the issue of managerial and bureaucratic power. This has little to do either with socialism, which historically has been concerned only with the economic power of private business, or with capitalism. It is a political and sociological problem of large scale, which now presents itself as strongly in the State bureaucracy, the Trade Unions, the nationalised industries, and the political parties, as it does in private industry.

streets at night, later closing-hours for public houses, more local repertory theatres, better and more hospitable hoteliers and restaurateurs, brighter and cleaner eating-houses, more riverside cafés, more pleasure-gardens on the Battersea model, more murals and pictures in public places, better designs for furniture and pottery and women's clothes, statues in the centre of new housing-estates, better-designed street-lamps and telephone kiosks, and so on *ad infinitum*. The enemy in all this will often be in unexpected guise; it is not only dark Satanic things and people that now bar the road to the new Jerusalem, but also, if not mainly, hygienic, respectable, virtuous things and people, lacking only in grace and gaiety.

This becomes manifest when we turn to the more serious question of socially-imposed restrictions on the individual's private life and liberty. There come to mind at once the divorce laws, licensing laws, prehistoric (and flagrantly unfair) abortion laws, obsolete penalties for sexual abnormality, the illiterate censorship of books and plays, and remaining restrictions on the equal rights of women.<sup>1</sup> Most of these are intolerable, and should be highly offensive to socialists, in whose blood there should always run a trace of the anarchist and the libertarian, and not too much of the prig and the prude. If we really attach importance to the 'dignity of man', we must realise that this is as much affronted by a hypocritical divorce law which, as Matthew Arnold once wrote, neither makes divorce impossible nor makes it decent, as by the refusal to establish a joint production council in a factory.<sup>2</sup> A time will come, as material standards rise, when divorce-law reform will increase the sum of human welfare more than a rise in the food subsidies (though no doubt the party managers will be less enthusiastic for it). Socialists cannot go on indefinitely professing to be concerned with human happiness and the removal of injustice, and then, when the programmes are decided,

<sup>1</sup> Though if we remove these last, we should in fairness also remove unequal responsibilities from men. Women cannot claim equal rights, and at the same time continue to bring breach-of-promise or alienation-of-affection cases.

<sup>2</sup> Indeed many of these reforms can be justified by the simple moral judgment that hypocrisy is bad. There is something nauseating about the shocked outcry which greets any proposal to amend the licensing laws or to allow plays to be performed on Sundays, and the sanctimonious assumption of superiority over the immoral and godless Continentals, when we consider that public prostitution is tolerated in Britain on a scale which amazes visitors from more 'godless' countries. Let us at least have a little consistency.

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permitting the National Executive, out of fear of certain vocal pressure-groups, to become more orthodox than the bench of bishops.

Much of this can at least claim the sanction of one powerful stream of socialist thought – that stemming from William Morris; though other, Nonconformist and Fabian, influences wear a bleaker and more forbidding air. For one brought up as a Fabian, in particular, this inevitably means a reaction against the Webb tradition. I do not wish to be misunderstood. All who knew the Webbs have testified to their personal kindness, gentleness, tolerance, and humour; and no one who reads *Our Partnership* can fail to be intensely moved by the deep unaffected happiness of their mutual love. But many of their public virtues, so indispensable at the time, may not be as appropriate to-day. Reacting as they were against an unpractical, Utopian, sentimental, romantic, almost anarchist tradition on the Left, they were no doubt right to stress the solid virtues of hard work, self-discipline, efficiency, research, and abstinence: to sacrifice private pleasure to public duty, and expect that others should do the same: to put Blue Books before culture, and immunity from physical weakness above all other virtues.

And so they spent their honeymoon investigating Trade Societies in Dublin. And so Beatrice could write that 'owing to our concentration on research, municipal administration and Fabian propaganda, we had neither the time nor the energy, nor yet the means, to listen to music and the drama, to brood over classic literature, to visit picture galleries, or to view with an informed intelligence the wonders of architecture'.<sup>1</sup> And so Sidney withheld approval from the Soviet experiment until workers' control had been suppressed, and Beatrice until the anti-abortion law had been enacted, and she could write with approval of the serious, youthful Comsomols with their passion for self-discipline and self-improvement: and of the emphasis on personal hygiene and self-control – 'there is no spooning in the Parks of Recreation and Rest'.<sup>2</sup> And historically, without a doubt, this insistence

<sup>1</sup> *Our Partnership*, p. 14.

<sup>2</sup> From a document privately circulated on her return from Russia in 1932 (quoted in *The Webbs and Their Work*, p. 226). And she goes on to relate with approval a warning said to have been given by Stalin to a high-placed Commissar: 'I do not want to enquire into your private affairs, but if there is any more nonsense about women, you go to a place where there are no women.'

on austerity was a vital service to a young and growing opposition movement.

But now we surely need a different set of values. Permeation has more than done its job. To-day we are all incipient bureaucrats and practical administrators. We have all, so to speak, been trained at the L.S.E., are familiar with Blue Books and White Papers, and know our way around Whitehall. We realise that we must guard against romantic or Utopian notions: that hard work and research are virtues: that we must do nothing foolish or impulsive: and that Fabian pamphlets must be diligently studied. We know these things too well. Posthumously, the Webbs have won their battle, and converted a generation to their standards. Now the time has come for a reaction: for a greater emphasis on private life, on freedom and dissent, on culture, beauty, leisure, and even frivolity. Total abstinence and a good filing-system are not now the right sign-posts to the socialist Utopia: or at least, if they are, some of us will fall by the wayside.

#### *v Cultural and Amenity Planning; and the Declining Importance of Economic Problems*

In the field of cultural values, what is mainly, indeed desperately, needed is determined government planning – to preserve what beauty we still have left in Britain, and to help create a little more. With personal consumption rising by 2-4% a year and likely to double in 20 years, it will really not much matter a decade from now whether we plan to produce rather more of this and less of that, or exactly what prices are charged for this commodity or that. The level of material welfare will soon be such that marginal changes in the allocation of resources will make little difference to anyone's contentment. If they wish, let the violent economic planners and anti-planners battle the matter out. The rest of us will grow progressively more indifferent.

But we shall grow progressively less indifferent, or so it is to be hoped, to the question of town and country, and architectural, planning. It is hard to discuss this without a tinge of melancholy. It was always obvious that profit-maximisation and market forces

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would be inimical to the preservation of beauty – the ribbon-building of the 1930s, the speculative housing estates, the steady destruction of London's Georgian squares, made us sufficiently aware of that. And to jog our memories we have only to see the new and utterly pedestrian commercial buildings now beginning to dwarf the City churches, and soon St. Paul's: or to read of cases such as that recently reported, where the English Electric Company, enjoying annual profits measured in millions of pounds, rejected the highly-commended winning design in a competition for its new head office, in favour of a mediocre but commercially more convenient structure.

The melancholy comes from the gradual fading of the post-war hopes of public planning. The post-war era was to be, in this respect, a brave new world. Brilliant, imaginative town-plans were to re-create our major cities. The new towns were to bring an end to London's urban sprawl, and to provide the greatest social and architectural experiment for centuries past. National Parks, the Land Fund, and in a different sphere the Arts Council, symbolised what was to be a new attention to beauty and culture. Above all the Town and Country Planning Act was to be a sure defence against the vulgarities and atrocities of the past.

And public planning in fact has much to its credit. The new towns have been a brave, and abundantly worthwhile, experiment. Post-war housing estates have, on the average, reached a better architectural standard than their predecessors (though seldom a very high one). The blitzed cities have not grown up wholly messy and haphazard, but with at least an element of design and spaciousness. National Parks are slowly (but so slowly) creeping from theory to reality. Some atrocities have been prevented by the Town and Country Planning Act. One public enterprise, the Forestry Commission, as the Kielder in particular shows, has added something new and imaginative to British life not only in its splendid forests, but in the design of forest villages. Nor has the State been backward, as the Festival of Britain demonstrated, as a direct patron of the arts.

But progress has been terribly slow; and the results terribly patchy. And now the impetus seems to be going out of the whole movement; and a middle-aged, apathetic disillusionment is setting in. A Conservative Minister of Works will not take the



trouble to save Colleshill, though all the experts told him that he could. High Paddington is abandoned on grounds of cost. The design and adequacy of council-houses has deteriorated appallingly since 1951. The Government itself all but demolished Colcutt's Imperial Institute campanile. The City of London is almost past saving from second-rate mediocrity; even the limited New Barbican project was turned down time and again by the City Corporation. The new towns are compelled to skimp their amenity building through lack of funds. The Board of Trade, always the enemy of both social and economic enlightenment, by relaxing its licensing controls, is once more permitting industry to expand in London and Birmingham, and making it inevitable that these cities, against all our post-war hopes, will spread inexorably into the countryside again. And this is only part of the problem which overshadows all others in this field: the relentless invasion of the countryside by 'Subtopia', and the gradual obliteration of the distinction between town and country.<sup>1</sup>

This is not a book about architecture, or town and country planning; I am not, in any event, expert enough to go into detail. But detail in fact is hardly necessary, since the enemies to be overcome are attitudes of mind; if they can be conquered, the detailed policies will follow. These enemies are first parsimony, secondly indifference, and thirdly anarchistic selfishness. The parsimony can be overcome by a recognition that the total sums involved are a minute fraction of total consumers', or even total Budgetary, expenditure. It is literally true that an annual increase in 'cultural' spending of £30 millions for the next 10 years, out of an annual increase in output of some £300 millions and a Budget of over £3,000 millions, would revolutionise the situation. It only needs a little, and so little, firmness in the face of the Beaverbrook Press.<sup>2</sup>

The indifference can be countered only by a display of savagery on the part of the minority who care for these matters – though it may, in the end, not be a minority at all, once the issues are put and the votes collected; this is a sphere in which determined

<sup>1</sup> v. Ian Nairn, *Outrage* (Architectural Press, 1955).

<sup>2</sup> Personally I should be prepared, to take one concrete example, to pay any subsidy necessary to encourage more high building in cities in the interests of preserving the countryside – whatever the *Sunday Express* said about government waste, or the *Economist* about the 'distortion' of resources.

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leadership might yield generous dividends. The selfishness, often dressed up in the plausible language of complaints against bureaucracy or compulsory purchase or inadequate compensation, and fortified by a vulgar philistinism amongst those who articulate it in Parliament and the Press, will never be eradicated by argument or debate. We have here a simple, but deep, dividing line at once of principle and temperament; a clash of values to be resolved, not by verbal compromise, but simply by struggle.

Although this emphasis on culture, and that in the previous section on personal liberty, cannot claim the label socialist, they do provide a justification for supporting the Labour in preference to the Conservative Party. Not that the former's record on cultural or libertarian issues is immaculate – far from it. But it is at least significantly better than the Conservative record. A higher proportion of Labour than Tory Members of Parliament has consistently voted for enlightenment on issues such as the Festival of Britain, town and country planning, divorce-law reform, the censorship of plays and books, the abolition of hanging, and the Arts Council; socialists have even shown more practical interest in the preservation of historic private houses; while post-war Labour Chancellors, under Mr. Dalton's lead, initiated the Land Fund and showed unexampled generosity to the Universities. The mood of the Party is therefore mildly encouraging. But one grows too hopeful. By the time we next come back to power, many opportunities will have been lost irretrievably; as this is written, innumerable pygmies, presented with an opportunity that only Wren has ever before enjoyed, are busy spawning their ugly rectangles all over the City of London.

Nevertheless, I hope and believe that the Labour Party may come to take the lead in this struggle. It would, in the judgment of history, do more for Britain by planning the City of London than by planning the chemical industry, and infinitely more by abolishing hanging than by abolishing the tied cottage. It has a favourable background and tradition for assuming this role – the influence of William Morris, its long-standing belief in social as opposed to private values, and the tender, respectful feeling for culture that characterises the educated working class. And it certainly has the opportunity – not merely because the need is so urgent, but because material standards are rising to the point

where we can spare more energy, and more resources, for beauty and culture.

Indeed this is a sphere in which the original co-operative ideal is directly relevant. I discussed this ideal in Chapter V,<sup>1</sup> and concluded that although it was both obviously unfulfilled and historically part of socialism, yet it was hard to see how it could be realised in practice, and on a national scale, in terms of personal motives or industrial relations. But in the cultural field, such an ideal, which demands that social should be placed above private interests, is practicable as well as relevant; though recent experience has taught us that 'private' in this context has little to do with private profit, and must be defined as 'sectional' – to include city corporations, local councils, nationalised industries, and even government departments, as well as private business. But if we pursue this ideal vigorously, and even savagely, we might make Britain not only a more prosperous, not only a more just and equal and contented, but also a more beautiful and civilised country to live in.

In so doing, and with the aid of rising material standards, we might find that another aspect of this ideal, the weakening of the motive of personal gain, was also being insensibly and imperceptibly realised. 'When the accumulation of wealth', Keynes once wrote, 'is no longer of high social importance, there will be great changes in the code of morals. . . . I see us free to return to some of the most sure and certain principles of religion and traditional virtue – that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful. We shall honour those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things.'<sup>2</sup>

It is no doubt too early yet to relax into these more humane ways, hemmed in as we still are by squalor and distress, especially in under-privileged lands abroad; and all our hopes may yet be blasted by a failure to resolve the competitive struggle known as the Cold War. But even now, as Keynes went on to say, 'there

<sup>1</sup> Section IV.

<sup>2</sup> *Essays in Persuasion* (Macmillan, 1931), pp. 371-2.

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will be no harm in making mild preparations for our destiny, in encouraging, and experimenting in, the arts of life as well as the activities of purpose'. We do not want to enter the age of abundance, only to find that we have lost the values which might teach us how to enjoy it.



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